

The Incorporated Accountants' Journal

The Official Organ of The Society of Incorporated Accountants and Auditors

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Professional Notes.

Our readers will be familiar with some of the activities of the Research Committee of the Society of Incorporated Accountants by seeing the specimen forms of accounts we have published in our columns in this and recent months. Another of the objects of the Committee is the publication of booklets on matters of practical importance to accountants. The first of these has now been issued. It deals with standard practice in auditing and the use of machines in accounting. A short notice of this will be found in another column under the head of "Reviews."

Men with moderate incomes should not overlook the new Voluntary Pensions scheme under the provisions of the Contributory Pensions Act, 1937. The qualification for admission is that the applicant must have been under 55 years of age on January 3rd, 1938, and his income must not exceed £400, of which not more than £200 may be unearned income, but these limits apply only

at the time of entry into insurance. After January 2nd, 1939, the age limit will be 40, and contributions will depend on age. The new scheme applies only to those who, under the terms of their employment, are not already covered for the benefits of the new Act. The weekly payment under the new scheme is 1s. 3d., and the benefits in the case of men are pensions of 10s. a week at the age of 65, widows' pensions of 10s. a week, and orphans' pensions of 7s. 6d. a week for each child under a specified age. Full particulars are available at any post office.

In its passage through Committee in the House of Commons the Hire Purchase Bill is being largely remodelled. Apart from a number of amendments already made, the introducer of the Bill has withdrawn no less than 16 clauses for the purpose of having them re-drafted in simpler form. The difficulty is to find a means of preventing abuse without interfering with legitimate business.

The public do not seem to be particularly impressed with the schemes that have been put forward for the purpose of converting fixed and flexible trusts into shares in a managed investment trust. The earlier offers of this description met with some success, but more recent issues do not appear to have received much support. It would seem that the public are more attracted to an investment where they know in which concerns their money is placed than to an investment where the disposition of the invested funds is largely at the discretion of a board of management.

In anticipation of the next Budget the Federation of British Industries has made representations to the Chancellor of the Exchequer on the

subject of income tax, the suggestion being that no addition shall be made to direct taxation, but that, if more money is required for the cost of re-armament or other purposes, it should be obtained by further borrowing. The view is expressed that the peak of business activity is passing, and that any increase in taxation would be a serious blow to confidence. The Federation also urge that all expenditure by manufacturers in relation to air-raid precaution schemes should be an allowable expense for national taxation purposes, and that there should be a re-examination of the law relating to the allowance given for depreciation of mills and factories.

A new Swiss law relating to companies limited by shares constitutes part of the "Code des Obligations" which has been recently amended. For the purpose of the balance sheet the Code lays down methods of valuation of different classes of assets, but the directors may provide secret reserves by showing the assets at less than their actual values, provided these reserves are created for the purpose of securing the permanent prosperity of the enterprise, or the regular distribution of dividends. There is a specific obligation to create a "Statutory Reserve" by setting aside a percentage of the profits, and no remuneration can be paid to the directors until this reserve has been provided and a 4 per cent. dividend paid.

The appointment of auditors is obligatory, but no specific qualifications are stipulated except in the case of companies with a capital of £250,000 or over. The auditors are required to make a written report in which *inter alia* they must express their opinion on the distribution of dividend proposed by the directors. In the absence of such a report the general meeting of the company cannot pass any resolution relating to the balance sheet.

Two points of importance were settled in the case of *Pratt v. Cook, Sons & Co. (St. Paul's), Limited*, which came before Mr. Justice Wrottesley in the King's Bench Division last month. The first was, that under the provisions of the Truck Act, 1931, the wages of a man engaged in manual labour must, in the absence of a signed agreement, be paid in the current coin of the realm only and not otherwise. In the case under notice the plaintiff was paid partly in cash and partly by the provision of dinner and tea on his employers' premises, the value of which was agreed to be equivalent to 10s. a week. The other point was that the claim which consequently arose, being

enforceable only by virtue of an Act of Parliament, came under the category of a specialty debt, and was therefore recoverable over a period of twenty years after the cause of action. The amount claimed was £397 10s., representing 10s. a week deducted from wages over a period of fifteen years.

After going fully into all the circumstances, his Lordship decided that the plaintiff was entitled to recover the amount claimed. The employment was that of a packer, which his Lordship held to be manual labour. Regarding the question of specialty debt, he said it was not every right of action conferred by Statute which could be called an action for a debt on a specialty, but the present action was clearly within one of the tests laid down in *Cork & Bandon Railway Company v. Goode*. What was done by sects. 3 and 4 of the Truck Act, 1931, was not to impose penalties, but to wipe out payments of wages made not in current coin of the realm, and to enable the recipient to recover his wages in money.

An unusual point in relation to interest on legacies arose in the case of *Re Wyles; Porter v. Wyles*. A testator, having left pecuniary legacies to two nephews, also bequeathed pecuniary legacies to numerous other beneficiaries and directed that if his estate proved insufficient to pay all the legacies in full the legacies to the two nephews should first abate. For certain reasons several years elapsed before the estate was realised and it was then found that there was insufficient to pay all the legacies in full, and the bequests to the nephews had to abate. The question then arose whether interest from the end of the executors' year on the legacies which were payable in full should be treated as part of such legacies so that the burden of the interest would fall upon the two nephews. It has been held by Mr. Justice Farwell that such interest is not part of the legacies, and is merely the result of a rule of administration designed to prevent residuary legatees from benefiting at the expense of other legatees by any delay in the payment of their legacies. In computing the abatement of the legacies to the two nephews, therefore, the interest on the unabated legacies is not to be taken into account and in the circumstances is not payable at all.

Is sur-tax payable in respect of dividends declared to be payable "without deduction of income tax"? It was contended for the appellant before the Court of Appeal in the case of *Inland Revenue Commissioners v. Cull* that there was

no such liability. The company paying the dividend in this case was not liable to pay any income tax in the year in which the dividend was paid owing, it was stated, to losses incurred in previous years, and it was claimed that the company, having elected not to exercise its right to deduct tax, as it was entitled to do, and having paid the dividend merely without deducting tax, the dividend was not "free of tax," and there was no ground for treating the sum received as a net amount after deduction of tax, no deduction having in fact been made. As stated in these columns in July last, Mr. Justice Finlay rejected the appellant's contention and his decision has now been upheld by the Court of Appeal by a majority, Lord Justice Romer dissenting.

In delivering judgment, the Master of the Rolls drew attention to the difference between the facts in this case and in that of *Neumann v. Inland Revenue Commissioners*, upon which reliance had been placed. In *Neumann's* case the dividend paid exhausted the fund of profits available represented by the excess of the rents over the Schedule A assessments, so that it was impossible to treat the amount actually paid as the net amount of a larger gross sum. In this case, however, there was a surplus more than sufficient to cover both the amount paid in dividend and the tax thereon. Accordingly, his Lordship considered that sect. 7 of the Finance Act, 1931, was applicable and the amount received must be deemed to be a net sum after deduction of income tax, and the gross amount must be brought into account for sur-tax purposes. The Master of the Rolls interpolated some caustic comments upon the patchwork legislation relating to income tax, and towards the end of his judgment said: "If my reasoning is unsatisfactory my excuse must be that the whole system of deduction of tax from dividends is illogical from top to bottom and any attempt to make it logical is necessarily open to criticism."

A similar point arose in the case of *Mrs. C. M. Benn v. Inland Revenue*. It was decided by the House of Lords in the case of the *Ormond Investment Company, Limited v. Betts* that income received by that company in its first year was not liable to income tax. Dividends had been paid in the usual way under deduction of tax, and tax which had been paid over to the Inland Revenue was refunded. The refund was placed in a special reserve fund, part of which was subsequently distributed by way of dividend, stated not to be

subject to income tax or sur-tax. The appellant in this case duly included the original dividends for sur-tax at the gross amounts but claimed that she was not liable to include anything in respect of the subsequent distribution. The matter came before Mr. Justice Finlay, who held that the appellant was so liable, the grounds of his decision being, briefly, that, whereas in the cases of *Gimson v. Commissioners of Inland Revenue* and *Neumann v. Inland Revenue*, the profits out of which the distributions were made were not merely assessable at nil but were not assessable at all upon the companies, in this case the payment was made out of profits or gains brought into charge to tax although in the year in question the assessment was nil.

In view of the numerous cases of default in the payment of interest on foreign bonds, the decision in the case of *Inland Revenue Commissioners v. Paget* is of interest. The respondent held bearer bonds of the City of Budapest and of the Kingdom of Yugoslavia, the former being payable in sterling and the latter in dollars. In both cases the payment of interest was suspended and certain offers were made to the holders which the respondent did not accept. Instead she sold the interest coupons for which there was a market, income tax being deducted from the proceeds, and the Inland Revenue claimed that such proceeds were liable to be included in her statement of total income for sur-tax purposes. It has been held by the Court of Appeal, confirming the judgment of Mr. Justice Finlay, that the respondent is not so liable, the moneys received by her being the proceeds of sale of the coupons as distinct from the interest they represented. As Lord Justice Romer pointed out, the lump sum proceeds of the sale of an annuity even for one year are capital and not income.

A good deal of correspondence has appeared in the public press recently with regard to a proposal to provide for death duties in the case of large estates by means of life assurance policies, but the difficulty which at once arises is that the proceeds of any such policy become part of the deceased's estate and thereby increase the amount of duty payable. In most cases also the rate of duty is increased by reason of the total value of the estate being enlarged. It has been suggested as a solution that the point could be met by exempting from death duties any life assurance policies taken out expressly for the purpose of providing for the payment of duty. Such a course would raise several important considerations, but would certainly have the

advantage of assuring that the necessary cash would be available to meet the death duties when they become due, whereas in some of the largest estates, especially those consisting of landed property, it becomes necessary to break up the whole estate in order to provide the necessary funds. In any event there is the preliminary difficulty of distinguishing the cases to which such a concession should apply.

Last year the estimated total world production of gold was 35,400,000 ozs., which represents an increase of about $7\frac{1}{2}$ per cent. over the production of the previous year, and constitutes a new record.

The annual report of the Comptroller and Auditor-General covering the financial year to March 31st last, states that investigations into 3,119 cases of fraud and evasion of income tax resulted in settlements for a total amount of £1,122,388. Of these cases 306 were dealt with by the special branch which devotes its attention to investigating important cases involving fraud, and were settled for a total sum of £2,381,061. In the preceding year the total amount recovered in cases of fraud was £3,734,188, which arose out of 3,045 cases.

The American depression appears to have had a serious effect upon the motor industry. The Automobile Manufacturers' Association states that sales of cars and lorries in the month of January last totalled 233,100, as against 346,886 in the preceding month, and 399,638 in January, 1937. The sales of the General Motors Corporation to dealers in the United States are stated to have totalled 56,938 units in January, as against 108,232 in December, and 70,901 in January, 1937.

CONSTRUCTION OF AN INDEX OF BUSINESS ACTIVITY.

(CONTRIBUTED.)

If it were possible to ascertain within a very short time of the happening of the event, the precise point at which a trade cycle passed its peak or its lowest point, business men would have a very good guide as to what their future policy should be. The State, too, would benefit by such knowledge.

Indices of business activity are also of great interest to the student of economics and statistics. It may be useful therefore, to indicate how one of these indices is obtained. The *Economist* Index of Business Activity has the great merit of being up-to-date, the index for one month being given in its provisional form before the end of the next. Again, the changes in economic activity are measured

in quantitative, not monetary, units and if the index shows an increase in the volume of business activity, this increase is due to increased output rather than to increased prices. It would be impossible to include in the calculation all the factors which influence the level of this activity, but if the index is to be reliable a representative sample of all these factors must be employed. Also, the factors which are chosen should be capable of fairly easy assessment.

In the calculation of the *Economist* Index, fourteen different factors are included. These are:—(1) Employment; (2) Consumption of Coal; (3) Industrial Consumption of Electricity; (4) Merchandise carried on Railways; (5) Commercial Motor Vehicles in use; (6) Postal Receipts; (7) Building Activity; (8) Consumption of Iron and Steel; (9) Consumption of Cotton; (10) Imports of Raw Materials; (11) Exports of British Manufacture; (12) Shipping Movements; (13) Metropolitan, Country and Provincial Clearings; (14) Town Clearings.

It will readily be conceded that the list is very comprehensive. It includes employment, consumption of power, transport, foreign trade, bank clearings, in addition to other important factors. In the case of numbers 2, 8 and 9 the figures are on a tonnage basis, and not on the basis of the value of the output. With three exceptions, all the included items are on a daily average basis. This obviates any difference which might arise from the fact that the months have a varying number of working days. The three exceptions are, employment, which is, of course, only calculated for one particular day in each month, the number of motor vehicles in use, which again can only refer to one day, and building activity, where a twelve months moving average is used. It is well known that many branches of industrial activity are affected by seasonal influences. There is often a seasonal expansion in Spring and Summer, and a seasonal decline in Autumn and Winter. All the figures used are corrected for seasonal variations and thus, if the final index shows an upward movement from one month to the next, this movement is a real one and not to be explained merely as a seasonal one.

In a short article it is not possible to indicate the sources from which all the constituent figures are obtained, but the following examples may serve to illustrate the reliability and comprehensiveness of those used:—

Employment.—This is based on the Ministry of Labour estimate of insured workers, age 16-64, in employment in Great Britain.

Postal Receipts.—These are the average daily postal receipts as calculated by the Post Office.

Consumption of Cotton.—This represents the total deliveries of cotton as published by the Liverpool Cotton Association, converted into pounds and reduced to a daily average basis.

When the constituent factors have been agreed upon, the next step is to "weight" them in accordance with their estimated relative importance. This is to make sure that each item influences the final result to an extent which is proportional to

its importance in the whole field of business activity. The factors which constitute the index are very diverse in character and their common denominator not easy to determine. Thus the scheme of weighting must of necessity be somewhat arbitrary, but the authorities responsible for its construction believe that the relative importance of each factor can be indicated by the following scheme of weighting:—

Item	Weight assigned	Item	Weight assigned
1	10	8	2
2	4	9	1
3	2	10	2
4	4	11	3
5	2	12	2
6	3	13	4
7	2	14	1

An index of this kind is always related to a base which is normally expressed as 100. The base year should be one of average attainment and for the purpose of calculating the *Economist* Index, the average output, average value, &c., for each of the 14 factors during 1935 is taken as 100. Thus, when the employment index for July, 1937, is given as 111, it means that employment in July, 1937, was 11 per cent. greater than the average for 1935.

The final index is an average of all the constituent factors weighted in accordance with the scheme decided upon. Two averages are in use in calculating index numbers; the arithmetic mean, or normal average, and the geometric mean. In calculating the *Economist* Index the latter average is used. This means that the separate indices are raised to the power of their weights, the product of these separate results found, and then the 42nd root of this product obtained (the total of the weights being 42). The reason for the adoption of the geometric mean is that it gives a higher degree of accuracy over a period of time. When the arithmetic mean is employed, a large increase in the value of one item actually increases, in effect, the weight assigned to that item. The geometric mean does not suffer from this disadvantage.

As an example of the use of the geometric mean, the final index for September, 1937, is calculated in the table below, using the provisional indices for each factor given in the *Economist* Trade Supplement for October, 30, 1937. Four figure logarithms are used for the calculation, but these give the answer very approximately.

The *Economist* quotes a figure of 113 for September, 1937, which indicates that for that particular month industrial activity was 13 per cent. above the average for 1935.

At the beginning of 1928 the figure, based on 1935 standards was just over 90. It rose to almost 100 in August, 1929, and thereafter fell steadily to just over 80 towards the end of 1932. Since then, the trend has been steadily upwards. The highest figure recorded was for August, 1937, when the value was 113½. The figures for October and

November, 1937, were both 112, that for December, 110½.

Factor	Index for Sept. 1937	Weight assigned	Logarithm	Product of Cols. 3 & 4
1	111.5	10	2.0472	20.4720
2	112.5	4	2.0511	8.2044
3	124.5	2	2.0952	4.1904
4	116.0	4	2.0645	8.2580
5	112.5	2	2.0511	4.1022
6	108.5	3	2.0354	6.1062
7	95.5	2	1.9800	3.9600
8	157.5	2	2.1973	4.3946
9	106.0	1	2.0253	2.0253
10	128.0	2	2.1072	4.2144
11	115.5	3	2.0626	6.1878
12	106.0	2	2.0253	4.0506
13	106.0	4	2.0253	8.1012
14	99.0	1	1.9956	1.9956
		42		86.2627

$$\text{Final Index} \dots \text{Antilog } \frac{86.2627}{42} = 2.0536 = 113.$$

WEAR AND TEAR OF PLANT AND MACHINERY IN RELATION TO N.D.C.

(CONTRIBUTED.)

THE provision governing the allowance for the purposes of the Contribution of the deduction representing the diminution in value by reason of wear and tear of plant and machinery used in the business is found in paragraph 3 (1) of the Fourth Schedule of the Finance Act, 1937. This reads as follows:—

"There may be deducted in respect of any accounting period a sum (ascertained on the like basis as the amount of a deduction for wear and tear is ascertained under Rule 6 of the Rules applicable to Cases I and II of Schedule D) which represents the diminution in value by reason of wear and tear during that period of any plant or machinery in respect of which a deduction could be made under the said Rule 6, plus ten per cent. of that sum."

For the purposes of income tax the current wear and tear allowance is calculated for the fiscal year beginning on April 6th, and in many cases it will be found that an apportionment of the income tax allowances to accord with the actual accounting period will be equitable. Assuming an undertaking makes up its accounts regularly to September 30th in each year, the

following illustrates the method of arriving at the deduction on this approximate basis :—

Statutory profits before wear and tear allowance, say	£10,000
Wear and tear allowances for the purposes of income tax—	
Year to April 5th, 1937 ..	£800
Year to April 5th, 1938 ..	840
	—
Wear and tear allowance for the purposes of the Contribution	1,640
	<u>2</u> = 820
Net statutory profits subject to abatement	£9,180

The above method will not be acceptable, for example, in a case where the plant and machinery is being expanded with any rapidity and it then becomes necessary to calculate the wear and tear allowances separately as is suggested by the words "during that period."

Again, the method to be followed is best illustrated by way of example, and an accounting period to September 30th can conveniently be used. The following figures are taken from an actual case :—

	£		Additional	
			10%	1/10th
	£		£	£
Written-down value of plant and machinery as at April 6th, 1937, for income tax 1937-38 ..	32,354			
Add : One half normal allowance 1936-37	914			
	—			
Value for National Defence Contribution at October 1st, 1936 ..	33,268			
Allowance thereon		3,327	333	
Additions during period :—				
Proportionate Allowance for				
1936—				
October £549 11 months		50	5	
November 1,394 10 "		116	12	
December 3,107 9 "		234	23	
1937—				
January 2,302 8 "		153	15	
February 2,880 7 "		168	17	
March 2,825 6 "		141	14	
April 1,488 5 "		62	6	
August 537 1 "		4	—	
September 1,495 —		—	—	
	<u>£16,577</u>			
		16,577		
		49,845		
		<u>4,255</u>	4,255	425
Total allowance			£4,680	
Value forward	£45,590			

To appreciate the principle involved it must be borne in mind that the starting figure of £32,354 is the net value after deducting the normal allowance for income tax for the year 1936-37 of £1,828. By the normal allowance is meant the wear and tear allowance under Rule 6 exclusive of the additional one-tenth thereof authorised by sect. 18 of the Finance Act, 1932. The effect, therefore, of adding to the £32,354 one-half of this allowance, namely, £914, is to arrive at the statutory value of the plant at October 1st, 1936. The agreed percentage rate applied to the resultant figure therefore gives the wear and tear allowance for the accounting year to September 30th, 1937, on the opening value of the plant and machinery, and it is then only necessary to bring into account the wear and tear allowance on additions made during the accounting year. For this purpose the monthly additions are ascertained and the agreed percentage rate is applied as from the end of each month. As a matter of practice it will probably be found that the Inland Revenue Department will be prepared to accept a separate computation of the wear and tear allowance for the purposes of the National Defence Contribution on the basis above outlined.

STOCK VALUATIONS AND PURCHASE COMMITMENTS

The Special Committee of the American Institute of Accountants on Co-operation with Stock Exchanges has conferred with the Stock List Committee of the New York Stock Exchange on accounting problems created by the recent decline in commodity prices, and the Stock List Committee has issued the following letter to the Presidents of Companies having securities listed on the New York Stock Exchange :—

TO THE PRESIDENTS OF CORPORATIONS HAVING SECURITIES LISTED ON THE NEW YORK STOCK EXCHANGE :

"As a result of the fall in commodity prices during the last few months, the exchange has received requests for advice regarding the treatment in accounting statements of inventory losses and of differences between the present prices and the cost of goods contracted for but not yet received. The committee on stock list has given consideration to the question and has caused studies to be made to provide information upon which suggestions may be based, and has obtained advice on the accounting features involved from the committee on co-operation with stock exchanges of the American Institute of Accountants.

Treating, first, the question of annual reports as distinguished from interim reports, we feel that the following practices would be desirable :

(1) That each corporation should clearly advise its stockholders whether, as an incident to the conduct of its business, the corporation does or may enter into future commitments for the purchase and sale of commodities

(such as rubber, cotton, wool, sugar, wheat, &c.) to such an extent that the amount of its commitments outstanding is or may at any time become a material fact in the corporation's position.

If stockholders have not already been informed as thus suggested, the information should be given in the next annual report.

If, after having once made a statement on this subject, there should be a change of practice, that fact should be indicated in the annual report next following such change.

(2) (a) If, at the end of any fiscal year, purchase commitment prices exceed current purchase prices to a material extent (assuming that a free market for similar commodities can fairly be said to exist), the corporation should disclose what is the approximate amount of the indicated excess of prospective cost of commodities at commitment prices over the value at market prices, and what amount of reserve has been provided or is available at the close of the fiscal year in respect of such difference. If and to the extent that purchase commitments are offset by firm sales commitments to responsible buyers, no reserve would be necessary, but it would be desirable that this fact should be disclosed.

If prices have fallen, but there is no free market for commodities similar to those covered by commitments, the circumstances should be sufficiently described in the report to make the situation readily understandable to stockholders.

(b) The procedure above outlined (which is analogous to that of valuing inventories at cost or market, whichever is lower) is, the committee believes, in accordance with accepted accounting practice.

(3) The committee recognizes and draws attention to the fact that the existence of commitments in large volume may, in a time of widely fluctuating prices, be a fact of material importance in the financial position of a corporation, even though at the date of the balance-sheet market prices may be equal to or greater than commitment prices. It feels, however, that information on this point is not within the scope of the balance sheet or the accounts relative thereto, and that the question whether it should be given, and if so, how, forms a part of the general problem of supplementing annual accounts with other information bearing upon the position or prospects of the corporation, which must be dealt with by corporate executives in accordance with the circumstances of the particular case.

The foregoing has to do primarily with annual reports. It is equally important to stockholders to be advised of the existence of any of the situations herein treated upon the occasion of an interim report. There are, however, three essential differences between interim and annual statements, namely, that the former cover only a fraction of a year, they are less complete, and they are usually unaudited. The committee on stock list has frequently pointed out that, while it believes quarterly statements to be valuable to investors, there is an ever present danger that undue importance will be attached to them and unwarranted inferences drawn from them. In many cases losses which would be indicated under the foregoing treatments may be so large in proportion to the profit of a short period such as a quarter, that a statement which provided for the loss without indication of that fact, or of the amount of loss provided for, might be as misleading as one which ignored the loss entirely. The quarterly reports should at least show, in the event of the existence of any of the conditions herein treated,

whether such conditions have been dealt with and, if so, in what way.

In all of the cases herein treated, whether in annual or in interim reports, executives should determine the precise form of presentation in the light of the facts of the situations of their respective companies, bearing in mind that the object to be sought is the enlightenment of both present and potential stockholders.

Society of Incorporated Accountants and Auditors.

MEMBERSHIP.

The following promotions in and additions to the membership of the Society have been completed since our last issue :—

ASSOCIATES TO FELLOWS.

- ATTENBOROUGH, PHILIP (Clarke, Attenborough & Co.), Castle Gate Chambers, 34, Castle Gate, Nottingham, Practising Accountant.
CHAMBERS, ARTHUR (A. Chambers & Co.), 5, Bath Place, Worthing, Practising Accountant.
CROUDSON, SYDNEY (Croudson & Co.), 1, Oxford Place, Leeds, Practising Accountant.
GEE, HENRY, Martins Bank Chambers, Euston Road, Morecambe, Practising Accountant.
GIBSON, STANLEY, Treasurer and Accountant, Urban District Council of Enfield, Public Offices, Enfield, Middlesex.
HACKETT, REGINALD HARRY (Hackett, Patrick & Co.), Town Hall Chambers, Castle Street, Farnham, Surrey, Practising Accountant.
OSMOND, ERNEST EDWARD (Ernest Osmond & Co.), 467-8, Bank Chambers, 329, High Holborn, London, W.C.1, Practising Accountant.
SOUTHON, SYDNEY JAMES GARNET (Godfrey & Southon), Midland Bank Chambers, Exmouth, Practising Accountant.

ASSOCIATES.

- ADAMS, CLIFFORD JAMES, with Cooper Brothers & Co., 14, George Street, Mansion House, London, E.C.4.
APPS, BASIL ALBERT, with Edmonds, Clover & Ackery, 70, Commercial Road, Portsmouth.
BANNERTON, JOSEPH PATRICK, with Purtil & Co., 99, O'Connell Street, Limerick.
BARNETT, WILLIAM TEMPEST, with J. Edgar Jordan & Co., 20, Queen Street, Wolverhampton.
BARRETT, WILLIAM BULCOCK, with Fookes, Wyatt, Williams & Hickman, Salisbury House, London Wall, London, E.C.2.
BARROWCLOUGH, CLIFFORD FEARGUS, with Joseph Binns, Exchange Buildings, Mirfield.
BENALLICK, DAVID, with Deloitte, Plender, Griffiths & Co., Bank Buildings, Temple Street, Swansea.
BURTON, ROBERT WINDRAM, with Newby, Dove & Rhodes, Prudential Chambers, Grey Friars, Leicester.
CARSTON, DAVID RAYMOND, with Dennis H. Morgan, Stuart House, Edward Terrace, Cardiff.
CASSIE, ROWLAND ALEXANDER, with Winter, Robinson & Sisson, 16, Market Street, Newcastle-upon-Tyne.
CLARKE, EDWARD HENRY, Borough Treasurer's Office, Albion House, Ramsgate.
CORBRIDGE, ERIC HARRY, with Peat, Marwick, Mitchell & Co., 11, Ironmonger Lane, London, E.C.2.
DANKS, JOHN LESLIE, with R. H. Hackett, Town Hall Buildings, Castle Street, Farnham, Surrey.
DAVID, LESLIE FRANCIS, with Josiah Beddow & Son, Liverpool House, 15-17, Eldon Street, London, E.C.2.
DIXON, RALPH, with Thomas Coombs & Son, Oxford Chambers, Victoria Square, Leeds, 1.
DUGDALE, STANLEY, formerly with Corner & Jones, Wellington Buildings, Strand, Liverpool.

- DYAS, EDWARD CHARLES, City Treasurer's Department, The Guildhall, Portsmouth.
- EMMERSON, EDWARD, with Armitage & Norton, Atlas Chambers, King Street, Leeds, 1.
- EVANS, DAVID GEOFFREY, Accountant's Department, Salford City Council, Town Hall, Salford, 3.
- FORSTER, JOSEPH ISAAC, with Barwick, Kennedy & Co., Lloyds Bank Chambers, Keswick.
- GALLANT, ROBERT GEORGE WILSON, with Chas. O. Nicholson & Co., 66, John Street, Sunderland.
- GEE, LEATHAM, Borough Treasurer's Office, Town Hall, Keighley.
- GODFREY, JOHN HALL (Godfrey & Southon), Midland Bank Chambers, Exmouth, Practising Accountant.
- GREEN, ROY SAMUEL, with Slater & Dominy, Sussex House, Hobson Street, Cambridge.
- GUTGUTHIA, KASHI NATH, B.Com., formerly with S. R. Batliboi & Co., 1b, Old Post Office Street, Calcutta.
- HAIGH, RONALD, with Armitage & Norton, Somerset House, Halifax.
- HALL, ROBERT THOMPSON, with Price, Waterhouse & Co., 31, Mosley Street, Newcastle-upon-Tyne.
- HARGREAVES, CEDRIC, with Fred R. Petty, Court Chambers, North Street, Keighley.
- HARRISON, MORRIS EDWIN, with G. F. Anderson, 44, Devon Square, Newton Abbot, Devon.
- HICKLING, WILLIAM ARTHUR, with Prior & Palmer, General Buildings, Bridlesmith Gate, Nottingham.
- HUGHES, FREDERICK WILLIAM, with Russell, Tillett & Co., 61-62, Gracechurch Street, London, E.C.3.
- INNES, ALEXANDER YOUNG DAVIDSON, with James Meston & Co., 6, Golden Square, Aberdeen.
- JONES, LEONARD JOHN DENNIS, with Spain Brothers, Titmuss & Co., 25, Cardiff Road, Luton.
- KING, EDWARD SAMUEL, Borough Treasurer's Department, Town Hall, Leyton, London, E.10.
- KIRBY, WILLIAM (Kirby & Kirby), 82, South Mall, Cork, Practising Accountant.
- MACPIERSON, DONALD RODERICK, Treasurer's Department, Town Hall, Weston-super-Mare.
- MAGEE, DERMOT NICHOLAS PATRICK, with Silversides, Slack & Barnsley, 44, Bedford Row, London, W.C.1.
- MASON, WILLIAM ERIC, with Nutt, Horne & Co., St. James's Chambers, St. James's Street, Derby.
- MEAD, BASIL KENNETH, with G. E. Holt & Son, 8, Cook Street, Liverpool, 2.
- MERRIMAN, ROBERT DAVID, with Benbow & Ains, Derngate House, Derngate, Northampton.
- NEWELL, ALBERT EDWARD, Borough Treasurer's Office, Town Hall, Morley.
- NORRIS-JONES, ROBERT ALEXANDER CECIL, formerly with Spence, Paynter & Morris, 6, Wardrobe Place, Doctors' Commons, London, E.C.4.
- OURBRIDGE, EDWIN BERTRAM, with Beavis, Walker & Co., 53, New Broad Street, London, E.C.2.
- PLUMTREE, CHARLES HENRY, with Roy Kendall, Park Square Chambers, Leeds.
- PRATT, THOMAS ALAN, with Gillot & Bromwich, Wistow Chambers, 12, Halford Street, Leicester.
- QUILLINAN, MICHAEL FRANCIS JOSEPH, B.Com., 68, South Mall, Cork, Practising Accountant.
- READWIN, EDGAR SEELEY, formerly with Harnan & Gowen, 7, Queen Street, Norwich.
- REDSHAW, JACK, with Thomas Coombs & Son, Oxford Chambers, Leeds, 1.
- ROBINSON, FREDERICK WILLIAM JOHN, with Gundry, Cole & Co., 3, Great Winchester Street, London, E.C.2.
- ROY, BHUPENDRA MOHAN, M.A., formerly with A. M. Roy & Co., 1 and 2, Old Post Office Street, Calcutta.
- ROYCHOWDHURY, HARENDRA KUMAR, B.Sc., formerly with Batliboi & Purohit, National Insurance Building, 27, Bastion Road, Fort, Bombay.
- SAYERS, GEORGE CAMERON, with Reddall, Osborne & Co., 1, Guildhall Chambers, Basinghall Street, London, E.C.2.
- SHEPHERD, NORMAN ALAN, with William Clark & Stephens, Westgate Chambers, Newport, Mon.
- SIMPSON, FRANK ERNEST, with Prideaux, Frere, Brown & Co., 12, Old Square, Lincoln's Inn, London, W.C.2.
- SMITH, LESLIE, Borough Treasurer's Department, Town Hall, Sunderland.
- SMYTH, WALTER (James Baird & Co.), Imperial Buildings, 72, High Street, Belfast, Practising Accountant.
- SPREADBROW, FREDERICK GEORGE, with H. E. Davis, 83, Fore Street, London, E.C.2.
- STEPHENS, SIDNEY CHARLES, with Deloitte, Plender, Griffiths & Co., 5, London Wall Buildings, London, E.C.2.
- SUGDEN, GILBERT, City Treasurer's Department, Exchange Buildings, Nottingham.
- THOMAS, SAMUEL HOWELL DAVIES, with Jones, Robathan, Thompson & Co., 34, Blue Street, Carmarthen.
- WATKINS, CHARLES, formerly with Marcus H. Eve, 9, St. John Street, Coleford, Glos.
- WATSON, WILLIAM THOMAS, with Victor W. Sayer & Co., 391, Ewell Road, Tolworth, Surrey.
- WETHERILL, SIDNEY GEORGE, with Greenslade & Co., 297-302, Dashwood House, Old Broad Street, London, E.C.2.
- WHATTIER, MALCOLM WILLIAM MORTIMER, with James Todd, Adams & Wilcock, 381-399, Salisbury House, Finsbury Circus, London, E.C.2.
- WILSON, SIDNEY, with Hale & Hale, 22, Booth Street, Manchester, 2.

FORTHCOMING EVENTS.

- 1938.
- Mar. 2nd. *Swansea and South West Wales District Society.* At Swansea, at 6.30 p.m. Lecture by Mr. Percy H. Walker, F.S.A.A., on "Control of Stocks."
- Mar. 3rd. *South of England District Society.* At Southampton, at 7.15 p.m. Lecture by Mr. E. Miles Taylor, F.C.A., F.S.A.A., on "Costing."
- Mar. 4th. *London Students' Society.* At Incorporated Accountants' Hall, at 6.15 p.m. Lecture by Mr. W. J. Back, A.S.A.A., on "Partnership Accounts and Taxation."
- Mar. 4th. *Birmingham and District Society.* At Birmingham, at 6.30 p.m. Lecture by Mr. V. H. M. Bayley, F.S.A.A., on "Income Tax Assessments and Changes of Ownership."
- Mar. 4th. *South of England District Society.* At Bournemouth, at 7.15 p.m. Lecture by Mr. E. Miles Taylor, F.C.A., F.S.A.A., on "Costing in Relation to Hotels."
- Mar. 4th. *North Lancashire District Society.* Dinner at Park Hotel, Preston, at 6.30 p.m.
- Mar. 4th. *Sheffield District Society.* At Sheffield at 6.30 p.m. Lecture by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A., on "National Defence Contribution."
- Mar. 4th. *South Wales and Monmouthshire District Society.* At Newport, at 7 p.m. Lecture by Mr. C. E. Rollinson, A.S.A.A., on "Deeds of Arrangement in Principle and Practice."
- Mar. 4th. *Students' Meeting.*
- Mar. 7th. *Liverpool and District Society.* At Chester, at 6.45 p.m. Lecture by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A., on "National Defence Contribution."
- Mar. 7th. *Newcastle-upon-Tyne District Society.* At Middlesbrough, at 7 p.m. General Meeting of Members.
- Mar. 7th. *Sheffield District Society.* At Sheffield at 6.30 p.m. Lecture by Mr. C. H. Barker on "Executorship and Trusteeship."
- Mar. 8th. *North Lancashire District Society.* At Blackpool, at 7.30 p.m. Lecture by Mr.

- H. A. R. J. Wilson, F.C.A., F.S.A.A., on "Back Duty Cases."
- Mar. 8th. *Yorkshire and District Society.* At Leeds, at 6.30 p.m. Lecture by Mr. David Morgan, A.S.A.A., on "Insolvency."
- Devon and Cornwall District Society.* At Plymouth, at 6.30 p.m. Lecture by Mr. J. Ainsworth, F.S.A.A., on "Some Aspects of Municipal Finance."
- London Students' Society.* At Incorporated Accountants' Hall, at 6.15 p.m. Debate, "That the Activities of Speculators are to be Deplored."
- Mar. 9th. *Leicester and District Society.* At Northampton, at 6 p.m. Lecture by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A., on "National Defence Contribution."
- Mar. 10th. *Leicester and District Society.* At Leicester, at 6 p.m. Lecture by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A., on "Income Tax Losses and Rule 21 Assessments."
- South Wales and Monmouthshire District Society.* At Cardiff, at 6.30 p.m. Talk on General Legal Matters, by Mr. Elfyn David. Students' Meeting.
- Mar. 11th. *Hull Students' Society.* At Grimsby, at 7.15 p.m. Lecture by Mr. O. Griffiths, M.A., LL.B., on "The Law of Agency."
- Birmingham and Liverpool District Societies.* Visit to Austin Motor Works, Birmingham (by invitation of the Birmingham Society).
- Nottingham, Derby and Lincoln District Society.* At Nottingham, at 6.30 p.m. Lecture by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A., on "National Defence Contribution."
- South Wales and Monmouthshire District Society.* Annual Dinner at the Park Hotel, Cardiff, at 7 p.m.
- Mar. 14th. *Newcastle-upon-Tyne District Society.* At Newcastle-upon-Tyne, at 6.30 p.m. Lecture by Mr. J. E. Spoors, A.S.A.A., on "The Provisions of National Defence Contribution."
- Mar. 15th. *London Students' Society.* At Incorporated Accountants' Hall, at 6.15 p.m. A Practice Arbitration.
- Mar. 16th. *Birmingham and District Society.* At Birmingham, at 6.30 p.m. Lecture by Mr. Norman C. Hilton, A.C.A., on "Troublesome Points in Accountancy." (The lecture will be held at the Birmingham Chamber of Commerce, and is by invitation of the Chartered Institute of Secretaries.)
- Dublin Students' Society.* At Dublin, at 5.45 p.m. Joint Meeting with Chartered Students.
- South Wales and Monmouthshire District Society.* At Newport. Lecture on "National Defence Contribution."
- Mar. 18th. *South of England District Society.* At Bournemouth, at 7.15 p.m. Lecture by Mr. W. J. Back, A.S.A.A., on "Social Economics."
- London and District Society.* At Incorporated Accountants' Hall, at 8.30 p.m. Reception and Dance.
- North Staffordshire District Society.* At Hanley, at 6.30 p.m. Open Meeting.
- Mar. 21st. *Liverpool and District Society.* At Liverpool, at 6.15 p.m. Lecture by Major R. N. Barnett, T.D., A.S.A.A., A.C.I.S., on "Mechanisation: Machines and Methods."
- Mar. 22nd. *Newcastle-upon-Tyne District Society.* At Newcastle-upon-Tyne, at 6.30 p.m. Lecture by Mr. A. Lester Boddington, F.S.S., on "Statistics."
- Cumberland and Westmorland District Society.* At Carlisle, at 7.30 p.m. Lecture by Mr. W. W. Bigg, F.C.A., F.S.A.A., on "Installation of a Costing System."
- Yorkshire and District Society.* At Leeds, at 6.30 p.m. Lecture by Mr. Percy H. Walker, F.S.A.A., on "Cost Accounts and the Control of Stocks."
- London Students' Society.* At Incorporated Accountants' Hall, at 6.15 p.m. Discussion: "Hints for the Examination Room," led by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A.
- Mar. 23rd. *Manchester and District Society.* Annual Dinner, Midland Hotel, Manchester. (The date has been altered from March 18th.)
- Mar. 24th. *Bradford and District Society.* At Bradford, at 7.30 p.m. Lecture by Mr. W. J. Back, A.S.A.A., on "Partnership Accounts."
- South of England District Society.* At Southampton, at 7.15 p.m. Lecture by Mr. G. E. Radford, A.S.A.A., A.C.I.S., on "Creditors' Voluntary Winding-up."
- Mar. 25th. *Birmingham and District Society.* At Birmingham, at 6.30 p.m. Students' Study Circle: "Statistics," by Mr. A. P. Bardell, F.S.A.A.
- Nottingham, Derby and Lincoln District Society.* At Nottingham, at 6.30 p.m. Lecture by Mr. C. A. Sales, LL.B., F.S.A.A., on "Executorship."
- South Wales and Monmouthshire District Society.* At Newport, at 7 p.m. Lecture by Mr. A. Blackburn, A.S.A.A., on "Some Difficult Points in Accountancy."
- East Anglia District Society.* At Norwich, at 7.30 p.m. Lecture by Mr. A. Lester Boddington, F.S.S., on "Statistics and their Business Uses."
- Sheffield and District Society.* At Sheffield, at 6.30 p.m. Lecture by Mr. W. J. Back, A.S.A.A., on "Matters connected with the Public Issue of Capital."
- Manchester and District Students' Society.* At Manchester, at 6.30 p.m. Mock Insolvency Meeting.
- Swansea and South-West Wales District Society.* Annual Dinner at the Hotel Metropole, Swansea, at 7 p.m.
- Mar. 29th. *London Students' Society.* At Incorporated Accountants' Hall, at 6.15 p.m. The Hearing of a Case Stated.
- Mar. 30th. *Swansea and South-West Wales District Society.* At Swansea, at 6.30 p.m. Lecture by Mr. D. Gethin Williams, LL.B., on "The Accountant and the Companies Act."
- Mar. 31st. *South Wales and Monmouthshire District Society.* At Cardiff, at 6.30 p.m. Discussion of Examination Questions by Students.

Mr. R. H. Evans, A.S.A.A., Chairman and General Manager of the Vacuum Oil Companies of Central Europe, has been awarded the "Offizierskreuz des Oesterreichischen Verdienstordens" (Officers' Cross of the Order of Merit) by the Austrian Government, a very high distinction not often bestowed.

INCORPORATED ACCOUNTANTS' RESEARCH COMMITTEE.

The Design of Accounts.

Continuing the series of suggested accounts for various business undertakings, we publish this month a design of Engineers' Accounts.

These accounts must not be regarded as model accounts, but as a basis for criticism. Comments and criticism will be welcomed, and should be addressed to the Secretary of the Research Committee at Incorporated Accountants' Hall.

The Committee is grateful for criticisms received on accounts already published and trusts that readers of the *Incorporated Accountants' Journal* will also send in their comments on the accounts printed below.

ENGINEERS' ACCOUNTS.

A. MANUFACTURING ACCOUNT.

	£	£		£
I. MATERIALS CONSUMED (adjusted for stock of materials) :—			I. TRANSFER TO TRADING ACCOUNT :—	
Direct Purchases	—	—	Factory Cost of Goods completed ..	—
Issues from Stores	—	—		
II. DIRECT WAGES (sub-divided where necessary), including State Insurance	—	—		
III. DIRECT EXPENSES (detailed) ..	—	—		
Prime Cost of Production ..	—	—		
IV. INDIRECT EXPENSES :—				
(a) STANDING CHARGES :				
Salaries—				
Administration	—	—		
Drawing Office, &c. ..	—	—		
Rent, Rates and Insurance	—	—		
Depreciation—				
Land and Buildings	—	—		
Plant	—	—		
Tools, &c.	—	—		
(b) VARIABLE CHARGES :				
Indirect Labour (sub-divided where necessary)	—	—		
Repairs to Plant	—	—		
Tools	—	—		
Power and Light	—	—		
Heating	—	—		
Water	—	—		
Packing Materials	—	—		
Carriage Inwards	—	—		
Postage and Telephone (Works)	—	—		
Drawing Materials	—	—		
General Works Expenses ..	—	—		
(c) EXTRAORDINARY EXPENDITURE :				
Loss through faulty construction	—	—		
Experiments	—	—		
Loss on scrapping obsolete stocks	—	—		
Factory Cost of Production	—	—		
Add unfinished work at commencement ..	—	—		
Deduct unfinished work at end	—	—		
Factory Cost of Goods completed during the year ..	£	—		£

B. TRADING ACCOUNTS.

	£	£		£
V. COST OF GOODS SOLD :—			II. SALES (sub-divided where necessary)	
Cost of completed goods (from Manufacturing Account) ..	—			—
Add Stock of completed goods at commencement	—			
	—			
Deduct Stock of completed goods at end	—			
	—			
VI. BALANCE : GROSS PROFIT ON SALES transferred to Profit and Loss Account		—		
		£ —		£ —

C. PROFIT AND LOSS ACCOUNT.

	£	£		£	£
VII. SELLING :—			III. GROSS PROFIT ON SALES B/d ..		—
Salaries	—		IV. DISCOUNTS received		—
Commission	—		V. INTEREST :—		
Travelling Expenses :—			Bank	—	
Petrol and Oil	—		Investments	—	
Repairs	—				
Licences and Insurance ..	—		VI. MISCELLANEOUS RECEIPTS :—		
Depreciation	—		Property Rents, less Outgoings	—	
Hotel Expenses and Entertainment ..	—		Apprentice Premiums	—	
Show Expenses	—		Sundries	—	
	—				
VIII. ADVERTISING		—			
IX. ADMINISTRATION :—					
Salaries	—				
Rent, Rates and Insurance ..	—				
Lighting and Heating	—				
Printing and Stationery	—				
Postages	—				
Telephone	—				
Sundry Office Expenses	—				
Depreciation of Office Furniture	—				
Trade Subscriptions and Contributions	—				
Travelling Expenses	—				
Bank Charges	—				
Directors' Fees	—				
Audit Fees	—				
Law Charges	—				
	—				
X. FINANCE :—					
Discounts allowed	—				
Bank Interest	—				
Debenture Interest	—				
Bad Debts and Debt Collection Expenses	—				
Discount on Bills	—				
Losses on Exchange	—				
	—				
Less Profits on Exchange ..		—			
		—			
XI. BALANCE :—					
Profit for the year carried to Appropriation Account ..		—			—
		£ —			£ —

Belfast Incorporated Accountants.

The February luncheon meeting of the Belfast and District Society of Incorporated Accountants was held on Monday, February 14th, when the subject under discussion was "Working Capital."

The discussion was opened by Mr. F. Allen, F.S.A.A., who, after some preliminary remarks as to what was understood by working capital, said:

We may leave out of account such items of fixed capital as land, buildings, machinery, plant, and the like, which are usually termed "fixed assets," and concentrate on liquid and floating assets—things which are turned into cash in the normal course of business. In brief, net working capital, for our present discussion, may be taken as the excess of current assets over current liabilities.

It is interesting to note that in American practice, assets are sometimes divided into three classes: cash assets, quick assets, slow assets.

Current assets are: cash in hand, balance at the bank, recoverable book debts, stock-in-trade readily realisable, any short loans which may have been made, investments which can be disposed of, and not earmarked, and any other assets of the nature of these mentioned.

Current liabilities consist of accounts due for payment within a short period of time, but not long-term liabilities. Current instalments due on hire-purchase agreements would have to be included under the heading of "Current Liabilities."

If the current assets are in excess of the current liabilities, on an account prepared on these lines, there is a balance which is net working capital. Some practical conclusions are to be gained in this way, such as:—

- (1) Whether the stock being carried is too high for the trade done.
- (2) Whether the debtors are being kept well in hand, and accounts collected promptly.
- (3) If the net working capital shows a tendency to decrease, then one must look for:—
 - (a) Increased output and sales.
 - (b) Delay in collecting book debts.
 - (c) Stock being allowed to accumulate.
 - (d) Losses in trading.
 - (e) Capital expenditure out of revenue.

All these are important matters and some kind of a periodical statement, such as is recommended in the article in the *Incorporated Accountants' Journal of April, 1923*, and on the lines given therein, would obviously be of immense value, if serious attention were given to it.

In comparatively few businesses do we find all the capital provided by the proprietors. In fact, as Dr. Moore Fisher says: "Capital usually only acts as a buffer to keep the liabilities from overtaking the assets." It is the margin put up by those most interested in an enterprise as a guarantee to others to make advances, either in cash or by way of goods or materials or credit. One would like to go into this point much more fully: it would be very interesting to regard the balance-sheet as a summary of assets on the one hand, and a statement of "rights" on the other.

Obviously, if we classify the entries in a balance sheet, on the liabilities side, they must resolve themselves into:—

- (1) Original capital.
- (2) Surplus or undivided profits: both of these belonging to the proprietors; and
- (3) Creditors.

If, however, we are only concerned with the narrower idea of working capital, this can only come from:—

- (1) Original capital not sunk in fixed assets or unremunerative expenditure.
- (2) Current liabilities.
- (3) Undistributed profits or reserves.
- (4) Long-term liabilities.

Prudence suggests that one of the soundest ways of increasing the resources of a concern is for the proprietors to spend less than is being made, and to accumulate a substantial surplus, but it appears that this is not a palatable doctrine at the present time.

USE OF WORKING CAPITAL.

I should like to have said something about the use of working capital, and to have discussed the fact that cases differ. For instance, that £5,000 in the hands of capable people who maintain the flow of capital quickly, is really more powerful than £10,000 in the hands of less capable people, who are in a lazy or stagnant condition—properly understood, it is true that to the strong man there is more elasticity in credit and the use of capital than is revealed by any balance sheet.

This subject, in fact, belongs more to business management than accountancy. A balance sheet is like an old fashioned photograph. Business is rather to be compared to a cinematograph reel. It is a flow, and those who move quickly through the cycle of operations are usually the most successful—in the end, as Mr. Wilson says, the cycle in outline is cash, stock, debtors, cash—the quicker the flow the more remunerative the business.

An interesting discussion then took place in which the following members took part: Mr. J. S. White (chairman), Mr. J. D. Thompson, Mr. W. Keith, Mr. W. Smyth, Mr. D. T. Boyd, Mr. R. R. Crawford, and Mr. H. McMillan.

QUESTIONS IN PARLIAMENT.

National Defence Contribution.

On February 1st Mr. CRAVEN-ELLIS asked the Financial Secretary to the Treasury whether any decision had yet been reached as to whether National Defence Contribution will be levied upon profits resulting from the business of estate agents; and as to what part of such business will be regarded as professional and non-taxable for this purpose?

LIEUT.-COLONEL COLVILLE: As explained in the reply given by my right hon. Friend the Chancellor of the Exchequer on December 16th last to my hon. and gallant Friend the Member for Chatham (Captain Plugge), the ultimate decision in cases of doubt whether any particular business is or is not within the charge or whether any part of the business can be regarded as non-taxable does not rest with the Board of Inland Revenue who are the assessing authority, but is a matter for determination on appeal. No such determination has yet been given in the case of the business of estate agents, but, in the view of the Board, such a business would appear to be within the charge to the National Defence Contribution.

Mr. BELLENGER: Does that mean that all estate agents' profits under Schedule B will be liable to National Defence Contribution?

LIEUT.-COLONEL COLVILLE: I have given the views of the Department, but, as I pointed out, the matter may yet have to be determined by appeal, if there is any doubt. As I say, the Department do hold the view that they are liable, but the determination may rest with the Commissioners or with the Courts.

In reply to a subsequent question (February 3rd), LIEUT.-COLONEL COLVILLE stated that the above reply applied also to the business of an auctioneer or surveyor.

He also stated that National Defence Contribution would be levied on the profits of football pools companies.

Estate Duty.

On February 8th SIR WILLIAM DAVISON asked the Chancellor of the Exchequer whether his attention had been drawn to the serious objections in the national interest to the levying of Death Duties in a lump sum on the death of a taxpayer, especially in the case of agricultural estates; and whether he will appoint a representative committee to consider and report as to the loss, if any, likely to be occasioned to the revenue in the event of taxpayers being allowed to take out insurances in the name of the Chancellor of the Exchequer for the estimated amount of Estate Duty payable on their estate on death, such insurances not to be included in such estate except in so far as any such insurance might be in excess of the sum required to meet Death Duties; or, in the alternative, as to any loss to the Exchequer by taxpayers being permitted to make annual payments to the Chancellor of the Exchequer during lifetime to be accumulated with interest in respect of duties payable on death, such accumulations to the extent of the duty not to be included in the deceased's estate?

SIR J. SIMON: The estimation of the cost to the Exchequer of any proposal for relief from taxation is essentially a budgetary matter that must rest with the Chancellor of the Exchequer of the day, who has the resources of the Revenue Departments at his command for the purpose. The particular form of relief to which the question refers, namely, relief from Estate Duty in respect of life assurance moneys—a relief which I may observe would be general in character and would necessarily cover a much wider field than the particular case of agricultural land—is in fact a form of relief that has been frequently discussed in Finance Bill debates of recent years, in the course of which estimates of cost have been furnished. My predecessors in office have consistently rejected proposals of this kind as being unsound in principle and too costly to the Exchequer.

SIR W. DAVISON: Is my right hon. Friend aware that the Estimates given by the Treasury in Finance Bill debates have been very varying amounts? Does he not think that, having regard to the great importance of this matter, it would be desirable to have an independent committee of inquiry in order to take evidence as to the various schemes that are suggested and which those who suggest them consider would not involve the Treasury in a loss, especially as the Income Tax rebate would not apply to them?

SIR J. SIMON: My hon. Friend will recall that he himself has had considerable correspondence with and made various representations to the Treasury on this subject, and I can assure him that I have myself examined it with a great deal of care. I should be very glad at any time to receive further contributions and suggestions, but I think, as I explained just now, the estimate as to the results of the suggested change must be the responsibility of the proper Department.

Share Pushing.

Mr. BELLENGER asked the President of the Board of Trade when it is proposed to introduce the Bill to amend the Companies Acts?

THE PRESIDENT OF THE BOARD OF TRADE (Mr. Oliver Stanley): A Bill to deal with share-pushing and similar matters is in course of preparation and will be introduced as soon as possible.

Liverpool Incorporated Accountants.

ANNUAL DINNER.

The annual dinner of the Incorporated Accountants District Society of Liverpool was held on Wednesday, February 9th, in the Adelphi Hotel. Mr. T. T. PLENDER, President of the Liverpool Society, occupied the chair and the company numbered about 120.

Amongst others present were: The Lord Mayor of Liverpool (Alderman M. Cory Dixon); Mr. Walter Holman (President of the Society of Incorporated Accountants); the Mayors of Bootle, Bebington, Wallasey and Crosby; Mr. R. A. Wilson (President, Institute of Bankers); Mr. Collin Brooks; Mr. W. H. Baines (Town Clerk, Liverpool); Mr. H. Lowe (Principal Inspector of Taxes, Liverpool); Mr. James Allecorn (Official Receiver, Liverpool); Mr. Pieton H. Jones (Chairman, Liverpool Chamber of Commerce); Mr. R. J. Hodges (Assistant General Manager, Mersey Docks and Harbour Board); Mr. Godfrey Castle (President, Incorporated Law Society of Liverpool); Mr. H. G. Alexander (President, Liverpool Society of Chartered Accountants); Mr. K. G. Lyon (Vice-President, Liverpool Chartered Accountants' Students' Association); Mr. H. J. C. Davies (Chairman, Liverpool Branch of the Chartered Institute of Secretaries); Mr. W. Franklin Beavan (President, Liverpool Branch of the Auctioneers and Estate Agents' Institute); Mr. H. Nichols Morris (President, Insurance Institute of Liverpool); Mr. A. A. Garrett, M.A. (Secretary, Society of Incorporated Accountants); Mr. Stanley Morris, Jun. (Secretary, Liverpool Chartered Accountants' Students' Association); Mr. Noel Lewis (Secretary, Liverpool Branch of the Chartered Institute of Secretaries); Mr. J. W. Watson (President, Incorporated Accountants' Birmingham and District Society), Mr. Henry Smith (President, Incorporated Accountants' Society of Manchester and District); Mr. M. P. Ferneyhough (President, Incorporated Accountants' District Society of North Staffordshire); Mr. Ernest E. Edwards, M.A.; Mr. S. R. Harmer (Midland Bank); Mr. W. R. Bown (Lloyds Bank); Mr. C. S. Gibbons (Midland Bank); Mr. Ernest Dodd (Lord Mayor's Secretary) and Mr. Bertram B. Benas, B.A., LL.B.

The CHAIRMAN, in proposing the toast of "The Lord Mayor and City of Liverpool," said Liverpool was no mean city; it was, indeed, a very pleasant place. With regard to the future of the city he was a whole-hearted optimist. Much as Liverpool had grown in the past, he thought it would grow still more in the future. New industries were gradually coming in. The docks had been distinctly busier in the last two years, and, so far this year, the improvement had been more than maintained. Taking the long view there was nothing whatever to discourage them in the prospects of Liverpool.

The LORD MAYOR, in responding, said he thought he might refer to accountants as members of one of the senior professions in the city. The profession had grown and flourished until now it had become an integral part of the business life of Liverpool. To some people, like himself, who were not accountants, that profession was regarded rather on the lines of the well-known hymn inasmuch as they "moved in a mysterious way, their wonders to perform." (Laughter.) He congratulated the Liverpool Society on establishing their headquarters at Derby Square, Castle Street, one of the old historic sites of Liverpool. In acquiring that position, they had allied themselves not only with the history of Liverpool, but also with its commerce. Adverting to the subject of the unemployed, he said that was a question

that was always with him. He would be grateful for any help that anyone could give to him in connection with that matter. He wanted to acknowledge with thanks what the accountants were doing in a tangible way in having adopted one of the occupational centres for the unemployed. Many of those unemployed people were not Liverpool-born and their unemployment was not due to anything which Liverpool had or had not done. They were unemployed simply because they had drifted into Liverpool under the delusion that in a port like theirs there was always room for casual labour. But there was not room for more casual labour and the sooner that was made plain the better. That question was not a civic problem but a national one and it ought to be dealt with out of the national Exchequer and not the local one. (Hear, hear.) He had been impressed by the extent and variety of Liverpool industries. The other day, when he was discussing the question of attending the British Industries Fair at Birmingham, it struck him that it would be a good thing to have a Liverpool Industries Fair, in which they could show the world the variety and the excellence of the various industries carried on in Liverpool. What they wanted was more advertisement; they were far too modest about themselves. He thought a Fair, or Exhibition, which would show to the world that Liverpool was inviting them there to see, not only her ships, but things which she could make and deal in, would be a great advantage. Through the medium of such a Fair they would be able to demonstrate that in the matter of industrial production the city was one of the cheapest markets. It was highly probable that through the medium of such a Fair they would get a good deal more trade than they were getting at the present time. (Hear, hear.)

Mr. R. A. WILSON (President of the Institute of Bankers and Joint General Manager, Lloyds Bank) submitted "The Society of Incorporated Accountants." He said accountants were very closely akin in many ways to the kindred societies. Accountancy was a great profession; banking was in the main a business. Bankers were not exactly tradesmen, although they did serve customers across the counter. They were, perhaps, dealers in credit; they bought credit balances if customers had got any. (Laughter.) A good part of their business as bankers was in the nature of a profession. They had to know just about as much law as the lawyers knew. The bulk of their business was conducted on the basis of some legal document of one kind or another. Modern developments of business had added so enormously to the complexity of human and business affairs that the public expected a very high standard of technical education in its bankers and accountants. Modern banking and modern accountancy had, therefore, as they saw, during the last fifty years, been advancing side by side. One of the principal aims of their mutual Societies during that period had been to encourage their members to equip themselves with up-to-date knowledge so necessary to enable them to deal with the ever-increasing and ever-varying requirements of the public whom they served. Their territories marched together, though it might be that in places the boundary was not too clearly defined. He felt confident, however, that there need be apprehended no difficulty on that score, for two reasons—one was the great mutual respect they had for each other, and the other was that it was the public they served and the public who would decide such matters. This country had, amongst many things, two of which it could be justifiably proud—one was its very sound banking system and the other was the extraordinarily high standard of

commercial morality, supported and maintained by the fearless high principles of the accountancy profession. (Hear, hear.)

Mr. WALTER HOLMAN (President of the Society of Incorporated Accountants), in responding to the toast, said that at the outset he wanted to congratulate Mr. Plender on his occupation of the Presidential chair which had been held by many distinguished men before him, and to express to the Committee and members of the Liverpool District Society the very grateful thanks of headquarters for the support always given by the members in Liverpool to the work of the Society. Alluding to Mr. Wilson's tribute to the Society, he said he appreciated it the more because it came from a rival. The organisations they each represented were rivals, rivals for the favours of the woman they both ardently desired to win. (Laughter.) Lest he should be misunderstood, let him hasten to assure them that their intentions were strictly honourable; they desired to win the public for her own sake as well as for theirs. (Hear, hear.) So they proceeded with their wooing, each in his own way, until suddenly their rival obtained an advantage over them—he sent a Valentine just slipped between the pages of a pass-book and an accountant woke up next morning to find that he had been jilted. (Laughter.) But why did not the accountant copy his rival and also send a Valentine? Alas, he might not do so. He was a member of a professional body and as such he might not advertise himself. With the fear of a vigilant disciplinary committee before him, he must needs stand silent and inactive and watch the success of his powerful rival, powerful because of his great material resources and the fact that he was unhampered by the limitations of his professional rival. But, they would say, accountants should be made of sterner stuff. "Faint heart never won fair lady," and if she was worth winning, as she was, she was surely worth fighting for. He agreed and so they had followed the practical, even if it might seem the unheroic, course of interviewing their rival. (Hear, hear.) He was glad to be able publicly to acknowledge the courtesy and understanding with which the representations of the accountants had been received. He did so the more gladly because Mr. Wilson had been interviewed in that connection, although in a capacity other than that in which he was there that evening. He wanted to refer to those matters in some detail because many members in all branches of the accountancy profession throughout the country felt strongly about them and he suggested that nothing but good could result from a frank facing of the issue involved. He knew that professional men liked to feel that their rewards were not commensurate with their real worth, because they were actuated by high ideals of service. Let him assure them, however, that they had no monopoly of that idea. In offering to their customers services in connection with taxation and estate administration, the large financial institutions were as much actuated by the motive of service as accountants were. It was true that the banks charged for those services, though their modesty in charging was greater even than that of accountants; but the latter would be hypocrites if they attempted to claim that no mercenary consideration entered into their motives. Let them admit frankly: their services and their motives were similar, but the banks could offer them not only to their customers, but also to the general public and in a manner which accountants could not. But the banks had gone some way to meet the position of the accountants. They had promised that where a customer was known to have an auditor no approach should be made to him or her and nothing would be done to break a tie known to

have been already formed. They welcomed that promise as indicating an understanding of their position and a desire to meet it. But it was difficult to limit and control the effects of widespread advertising. Again, accountants would like to feel that they had a claim to a monopoly of taxation work, but in fact they had no such claim. If the profession of accountancy were a closed one and everyone calling himself an accountant and practising as such were compelled to possess adequate qualifications and to conform to recognised standards, the position would be vastly different. But as it was, the financial institutions might reasonably claim that they were as well qualified as many who were engaged in the work to deal with certain aspects of taxation. But there was something more to be said; there were cases where bank officials possessed all the relative information and were, therefore, well equipped to render the valuable service of tax recovery to their customers. He was sure, however, that Mr. Wilson would understand the hardship an accountant felt when the accounts which he had prepared and for which he had accepted responsibility were taken and used and dealt with by banks direct with inspectors of taxes. He understood that some banks recognised that matters arising under Schedule D of the Income Tax Act were the province of an accountant rather than of a banker. They, as accountants, would feel happier if all banks recognised and acted on that principle. They were now faced with the problem of interpreting and dealing with the National Defence Contribution, which appeared to be so simple and which in practice was going to be so complicated. He thought one of the most valuable contributions which the Society had made to its members in recent years was the preparation and publication of the brochure dealing with that Contribution. He the more gladly made that acknowledgment because Liverpool was not entirely unconnected with it. (Hear, hear.) In view of the great size and enormous resources of the banks of this country, they might well be thankful that the Companies Act prohibited bodies corporate from acting as auditors. One of the definite gains which had emerged from interviews had been the assurance that in estates and businesses which came into the hands of the banks, the auditors of the concerns would, as far as possible, be continued. It was impossible to ask for or expect more than that. An audit was not a vested interest and the right and power of appointment must remain with those responsible for the concern. If they thought that their representations had failed because their rival would marry the girl, he would reply that at least they had been retained as "best man" and there were still plenty of nice girls who might not be less discriminating because their choice fell on an accountant. (Laughter.) But the main functions of banks and accountants were so indispensable and so distinct, and the ground on which they competed so narrow, as compared with the vast field in which they might and did co-operate, that with reasonable magnanimity on the part of the banks there was no reason why they should not co-operate for the benefit of the community. There must be very few accountants who had not enjoyed the assistance of bankers in their personal and business affairs and had greatly benefited therefrom. He, therefore, thought he was entitled to say on behalf of them all that they desired that co-operation to be extended to all their relations. By the very nature of their work accountants were in a better position than most to appreciate the amazing efficiency with which the banking system worked and to realise the enormous assistance it rendered unceasingly to the industry and commerce of the country. If there were any validity in the statement that money and credit were the life blood of modern communities,

then it was true to say that banks were the heart, the arteries and the veins by and through which the blood circulated. The quality and quantity of the blood determined the health of the body and it was, therefore, in a spirit of enlightened self-interest that, in response to Mr. Wilson's kind words in proposing the toast of the Society, he expressed the good wishes of accountants for the continued prosperity of the banking institutions which Mr. Wilson so ably represented. (Applause.)

Mr. SAMUEL WOODYER submitted the toast of "Our Guests" and Mr. COLLIN BROOKS (London) replied in a facetious and witty speech.

The toast of "The President" was honoured upon the invitation of Major E. S. GOULDING.

Changes and Removals.

Messrs. James Baird & Co., Incorporated Accountants, of 72, High Street, Belfast, intimate that Mr. Walter Smyth, who has been in the service of the firm for a number of years, has been admitted into partnership. The name of the firm will remain unchanged.

Mr. Harold Bridson, Chartered Accountant, Mr. Duncan Newby, Incorporated Accountant, and Mr. Martin Hammond, Chartered Accountant, hitherto in partnership in Alexandria and Cairo, Egypt, have admitted into partnership Mr. Henry E. Cool, Chartered Accountant, and Mr. Ian C. Huie, Chartered Accountant. The firm will continue to practise under the name of Hewat, Bridson & Newby.

Mr. G. M. Dandeker, Incorporated Accountant, announces that he has removed his offices to 16, Moor Street, 2nd Line Beach, Madras.

Messrs. Trevor Davies, Tuck & Co., Incorporated Accountants, announce that Mr. Trevor Davies has retired from the Camden Town practice, and it has therefore been mutually agreed to dissolve the partnership heretofore subsisting between himself and Mr. W. L. Tuck. Mr. W. L. Tuck will continue to practise at 160, Camden High Street, London, N.W.1, under the style of Lewis Tuck & Co.

Mr. T. W. Dresser, Incorporated Accountant, has removed his offices from 29, Cookridge Street, to 16, 17 and 18, Greek Street Chambers, Greek Street, Leeds. This change also applies to the offices of the Yorkshire District Society.

Messrs. A. A. Henley, Burlinson & Co., Incorporated Accountants, announce that the practice previously carried on at 19, Grosvenor Place has been removed to 495, Oxford Street, Marble Arch, London, W.1. They have admitted into partnership Mr. D. W. Henley, Incorporated Accountant, who has retired from the firm of A. A. Henley & Co., 73, Basinghall Street, London, E.C. They will practise in future under the firm name of Henley, Burlinson & Co.

Mr. Leslie D. Malpas announces that he has taken into partnership as from January 1st, 1938, Mr. Michael Philip Simmons, who has been associated with him for the past six years. They will practise in future as Malpas, Simmons & Co., Incorporated Accountants, at Upper Hinton Chambers, Bournemouth, in addition to the practice already carried on under that name at 32, Chipper Lane, Salisbury.

Errors Encountered in Auditing.

A LECTURE delivered before the Incorporated Accountants' Students' Society of London and District by

MR. G. F. D. RICE,

INCORPORATED ACCOUNTANT.

The chair was occupied by Mr. A. C. HALL, Incorporated Accountant.

Mr. RICE said: I want to-night to see if we cannot look into a few cases that I and other accountants have encountered of errors that have been made in auditing and the subsequent trouble that has arisen, and then to find why those errors were made, the particular fault of the audit clerk or person making them, and the lesson to be learnt. I have done this because I have found that it is through those errors that we gain the experience that enables us to carry out our work. I am not so far from my student days that I cannot remember the feelings I had towards the gentlemen who wrote the textbooks. I always felt that they were a group of people who gathered together to write down as much as they could about the subject just for the purpose of making it difficult. But as time goes by I have found that these textbooks have been built up in many cases out of the painful experience of people in practice. Mistakes have been made, and through those mistakes something has been found out, and subsequently a method has been found for preventing those mistakes occurring a second time.

Actually it is venturesome to suggest that auditors make mistakes, because we pride ourselves on our accuracy; and really we should not make them, but we are human.

It is interesting to summarise the definition of an auditor. I find that to be a complete auditor I am expected in the first place to be very accurate and methodical; in the second place, very cautious, conscientious and careful; then I have to be alive, tactful and patient; and lastly, diligent and painstaking. Well, if I have those qualifications there should be no hesitation in giving me a seat on the Committee next year. (Laughter.) But I think we must all admit that we fall short of that very high standard and make these errors.

The important thing about an auditor is that he must be honest. Lord Justice Lindley, in the case of the *London General Bank*, said: "An auditor must be honest—that is, he must not certify what he does not believe to be true, and he must use reasonable care and skill before he believes that what he certifies is true." That is the trouble. We do not always take reasonable care to find out that the things we certify are true. Our mind immediately goes to the particular balance sheet that we certify, but we must remember that in most cases the principals who sign the balance sheet have to depend on you and me for the work that leads up to the final account.

Auditors must be honest. We must be very careful when our clients put forward views to see that those views are honest in their point of view; we must be satisfied about them. One of the most interesting things we come up against is the client who comes along and says: "That is a capital item," and during the conversation you drop a hint that if it went against revenue it would save income tax, and a quarter of an hour later he is convinced that the item should be charged against revenue.

We are sometimes liable to be influenced by a member of a firm, and to put down things in the way he wants them put without careful consideration. Some years ago I was presented with a set of accounts covering a period during which there had been a certain amount of construction in connection with the business. They had

not been able to pay the contractors' account, and a year later they paid him interest on that particular account, which they duly allocated to capital. Very speciously they explained about it, showing why they added it to the capital cost. I listened to their explanations and felt inclined to agree, but subsequent consideration by someone older and senior to myself proved to me that I was wrong in listening to it, and that I had not taken the care I should have done in partly giving way. The item was put to capital account, but it should have gone as a revenue item to the profit and loss account. That is the kind of error that is made if we are not careful. Always hear your clients' views with caution.

JOURNAL ERRORS.

A very familiar case with us all is that of vouching the journal. A simple job, and very often done in such a way that when you do come up against a particular item you do not trouble to examine it with the care you might exercise, or trouble to satisfy yourself that it is correctly put through the books. In a particular case that I remember, everything had been posted. There were debits and there were credits, and they had been cast. Then, when they came to balance up their list of creditors with the control account they were wrong. They spent considerable time in checking the postings and examining them again. But what they failed to do was to understand the entries. They just cheerfully looked at them and thought they were all right. When, however, someone else came along and worked in a different way they discovered that one journal entry was wrong. If they had thought about it for ten minutes, and tried to understand it, they would have discovered the error. But that was not done, and many days were wasted.

Now, the warning against that is, the entries that go through the journal are often the most interesting in the whole series, but they are often most difficult for the younger man to understand. It is well to take care that you do understand them before you put that little "V" at the bottom. It may seem an ordinary job, but it can be important.

CASH BOOK ERRORS.

I think that the book in which most errors occur is the cash book, and I want now to tell you about some cash book errors that have been encountered in auditing.

(a) *Bank Reconciliation*.—This is important. It is quite easy to take the debits and the credits in the cash book and check them up with the pass book, and as long as they agree everything is all right. Somebody may say "What is the date?" or pass some other information along to you, but it does not seem very important, and you often miss it. Then perhaps at the end you get a bank reconciliation, and you think you have finished it. You think to yourself: "It all balances, and it is very good." It happens, however, that a senior man looks at it and says: "This cash that was not paid into the Bank at the end of the year—should it have been paid into the Bank earlier?" You look rather bewildered, and say, "I do not know." Then it is found that a cashier has been holding an amount back and all your bank reconciliation has gone for nothing, because you did not trouble to see whether the cash received was paid in on or about the date it was received. It is also very important when you are doing a bank reconciliation to see that you get a certificate from the bank to you, and that you do not say, cheerfully: "Well, the cash agrees with the pass book, and therefore everything is well." It has been known for a pass book to be duplicated and the auditor to have the wrong copy.

(b) *Credit Vouching*.—Then I know of another case where some people were given the job of vouching the bank for one month with the paying-in slips. Well, that

is quite easy. It was a test for a month. They did it for the month, and found that one of the slips happened to be missing. The cashier looked very bewildered, and said he would have it looked up; he would get you a copy from somewhere or other, but he could not do it at the moment because he was far too busy. He said: "Here is the cash book; it is all right, isn't it?" Of course, being a good auditor, the clerk duly made a note of it, and then forgot all about it! Three months later there was a terrific uproar, and it was found that this particular cashier had been manipulating the bank paying-in slips. He had received a large cheque from a particular customer, and the particular paying-in slip that was lost was the one that would have revealed that fact immediately to the man who was doing the checking. I think it is a very easy fault into which we fall—making notes in the course of an audit and not following them up.

(c) *Contra Items*.—Then there is another case. We are cheerfully doing a bank reconciliation, and we find an item that is not in the bank, although it is in the cash book. We look at it and see a "C" against it. The cashier says: "Yes, there is a *contra* on the other side. One of our customers came in and I cashed a cheque for him." It sounds all right, and if you are not very careful you pass it over. You might, however, find on examination that what was happening was that the cheque was received from somebody for an extraordinary item, such as the sale of old iron or scrap, that would not be normally noticed, and the cashier was able to draw a cheque for himself which he was taking. Be very careful when people are cashing cheques and a *contra* is in the cash book. Do not take a cashier's explanation, although it may be very plausible. Be sure you know all the facts before you pass it. In that particular case the internal check, as we call it, was very weak, and I very much fear that in 99 cases out of 100 the internal check is weak. It is our job as auditors to see that we find out the weakness.

(d) *Vouching Wages*.—Then, with regard to the cash book, we get the famous case of vouching wages. This has happened several times—the secretary and the manager in collusion drawing the wages cheque on their joint signatures, adding something for themselves, and finally disappearing with the proceeds. The cheque drawn does not agree with the wages book. I know of one case of an internal check where this was happening—the internal auditor (not a qualified auditor) was taking a returned cheque of all things as a voucher. Of course, it was absolutely useless. But sometimes we are a little careless, and we do not take sufficient trouble to discover if there is some information that will satisfy us that the cheque drawn is right. In one case the explanation was: "It is all right, because there are two people—the cashier and the wages clerk, or the man who pays the wages." It is not sufficient to say that there are two people. In this case the wages clerk was making up the wages list, and the cashier was drawing and cashing the cheque which included £50 for himself, and giving the wages clerk the total of the list. Do not be satisfied when somebody says "We have an internal check—the cashier and the secretary."

We automatically examine the make up of the wages book if we are careful; but we can be careless—and an item of wages not connected with the business may be passed through week after week. People are prone to put through their books all their wages items, even those not connected with the business. Be careful of that, and be sure that you inquire who these people are, and what they do for their wages. Have a look at the National Health Insurance cards and make sure that they are stamped. An interesting case occurred on a particular job that may suggest a little thought to

your minds. The stamping of the National Health Insurance cards continued after men had passed the wage limit. The question was raised as to whether the men were legally insured. They were still deducting so much from their wages and paying over the employer's share, but it seemed that those men should have come under a different scheme altogether.

It is important with regard to wages that the internal check must be clearly understood and examined by the auditor. Two people can have an internal check. As long as one makes up the wages sheet and draws the cheque and the other one cashes it and pays the wages. An important thing to see is that the man who draws the cheque cannot pay the wages. If you have three: one person making up the wages book, another one drawing the cheque, and the third one paying the wages, there would have to be a lot of collusion, and very dangerous collusion, for the concern to be defrauded.

PETTY CASH BOOK.

It is very easy for errors to be encountered in the petty cash book, and it is very difficult to prove just where things have gone wrong. I remember a particular instance in which, doing normal checking, a £5 note had disappeared in transit. The cashier said he had paid it, but the petty cashier said he had never received it. It must be admitted that there was lack of organisation there, but it was very difficult to say where the money had gone.

We have all come across the case of the petty cashier who has not made up his petty cash book. Well, count his cash at once, and afterwards let him make up his book. If he takes any time in making it up, immediately report it to a superior, because it is very often a sign that there is serious trouble somewhere. It was said in the *London Oil Storage* case that it was the auditor's duty to verify the petty cash balance. Of course we all do so, but can be caught very badly over it on occasion. In a certain partnership there was £230 on the balance sheet as cash in hand, and one day it was counted, and the cash totalled £23 or thereabouts. The partners had drawn the rest out in little odd sums and had never paid them back. You see these balances, and you get some excuse about a large balance being needed for travellers or something of that kind, and you do not worry about it. Then you find trouble later.

One of the most dangerous things I have found in a petty cash book is when the book balances beautifully, and you subsequently find an error in some item. You find that the payment does not agree with the voucher, or something like that. You need to be very suspicious, because often in those cases there has been manipulation, and a slip has been made by the cashier in that manipulation. That is a warning for you to be on the watch.

SALES LEDGER ERRORS.

Now I come to errors in the sales ledger balances. There was an interesting case in which someone was given the job of checking the sales ledger balances, and went through them carefully. But in that particular case the amounts charged out to the customers were fixed amounts—let us say, for instance, £16 or £20 or £25—and there were broken balances that were not noticed. Later on it was found that cheques had been manipulated, and although it was a broken balance of that kind it had really been cleared. If you have sales in fixed amounts going out, broken balances are a danger signal.

I want now to remind you of the case of a paying-in slip that was missed. It was obvious in that case that a cheque had been received from a certain debtor, the person paying on account, and the balance was never agreed. It was a large account that was running on and

on, and nobody had ever bothered to agree it with the debtor concerned. It is very important to see that these accounts do agree. In one particular case it was possible for the man who kept the sales ledger account to go to the debtor and collect the money in cash. He would say to him, "You owe the company £10," and it would be paid to him. It was difficult to see whether the cash had been received or not. In that case every debtor was circularised. In general, if you are doing the sales ledger balances, you have not only to extract the list and cast it, but also carefully (a) watch the term of credit; (b) watch the age of the debt; (c) investigate increasing balances and payments on account; (d) watch for irregular balances; and (e) note any point that makes a debt doubtful.

BAD DEBTS.

In the case of *Arthur E. Green & Co. v. The Central Advance and Discount Corporation, Ltd.*, an auditor was held to be guilty of negligence when he accepted a schedule of bad debts furnished by a responsible official, although it was apparent that other bad debts not included in the schedule were also irrecoverable. There was another interesting case a short time ago. At the time of making up the accounts the auditors went through the balances, and in consultation with the officials of the company, wrote off certain debts. About six months later a traveller came along and said, "I think I can collect that debt," and two weeks later he came in with the balance in cash. Now, he was honest; but you can realise that if that debt had been written off and forgotten, he, if a dishonest man, could have collected it and put it in his pocket. In that case there was a failure in this sense: The man who owed the money could not be found. Letters sent to him were returned through the post. I think that in that case some part of the debt should have been left on the books as a reminder. Of course, you write off the whole amount when the debtor goes into bankruptcy and the final dividend is paid. But that particular case should be a warning when we come across a bad debt of that nature to look into it very carefully and continue to press for the money. Cash can be recovered in that way. Travellers are in touch with the customers, and very often are friendly with them, and sometimes can collect money that the company cannot collect.

PURCHASES.

Purchase Ledger Balances.—There have been cases where cheques have been drawn for non-existent creditors. Forged invoices are put through the books. Last year's invoices that were not very carefully marked have the dates altered. The way to avoid these errors is to insist, if possible, on a system of internal check. If this cannot be got, a report must be made to the effect that a satisfactory audit cannot be made. In a particular case where the dates of the invoices were altered, someone had been to see one of the creditors, and had managed to take some of his blank invoices. The internal check was extremely weak. Two people were able to draw cheques for themselves and get them cashed, and the collusion resulted in a lot of money being lost.

Vouching Purchase Invoices.—It is always advisable, if it can be arranged, to have the invoices marked: (a) with the order number; (b) with the date the goods were received; (c) to have them initialled by the person who checks them; and (d) to have them passed for payment by somebody else. If you have these records on your invoices and the work is properly carried out, you will not have much trouble. There was a case in which there were a lot of small creditors' balances, and the cashier used to take a list to the manager and say: "I have got ten accounts here amounting to about 15s. or 30s.; can I draw postal orders for them and pay them?" Generally the

manager would say: "Yes, that is all right." By a singular coincidence the auditor happened to be auditor to one of the creditors, and he found a small balance still due from his other client. He went into the matter, and found that these particular postal orders had been cashed by the cashier, and he had relied on the creditors not pressing too much for a small balance.

STOCK.

I do not intend to say much about stock, but I heard of one interesting case. A friend of mine was thinking of buying a small lending library, and he went along to see the shop. They produced a set of accounts, which he looked at, and thought looked very good, showing a net profit of about £750 a year. On the face of it he thought the price they were asking was not unreasonable. Then he had another look at the accounts. They showed that the opening stock was £500, and that books purchased amounted to £200, and then there were sundry expenses. He noticed that the closing stock was put down at £800. He thought that was very curious, and he said to the man in the shop: "I do not understand how you get this stock. Your opening stock was only £500, and you have purchased books to the value of £200, so you should only have at the most £700." "Well," the man replied, "as a matter of fact, I shut up another shop I had, and I brought the books over here during the year." (Laughter.) We are told that it is not our duty to take stock, and that we are not guilty of negligence if we accept somebody's certificate, "in the absence of suspicious circumstances." If you accept everything that is given you without some care and investigation you will never find suspicious circumstances. It is up to you to see that a glaring case like the one I have mentioned is discovered. Those accounts were certified, though admittedly not by people we should term of the highest repute.

Of course there are the common errors in regard to stocks, such as including particular items in stock that have not been invoiced. If that has happened we are liable, because we ought to have discovered this fact. There is also the reverse error of including such items in the purchases and not in the stock. If the simple system I have suggested of marking the invoices were adopted, this would be avoided.

We must not rely on the company for these things. Even the best of accountants are liable to errors—quite honest errors. There was a case with regard to stock. In the previous accounts, when the stock had been taken and valued, the auditors had written off a special depreciation from the stock sheets. When the company took stock at the next accounting period they took it on the same price basis as the previous one. The auditor said to the manager who was certifying the stock, "You have not increased your values in any cases," and he replied, quite honestly: "No, they are the same as the last accounts," and he put the stock figure in. Subsequently the make-up of the stock was compared with the previous period, and it was then found that there was this glaring item that had not been allowed for in the second instance. It is easy to miss a point like that. See that you do not pass anything without being fully satisfied that you understand it and know what it is about, and that it is quite in order.

SUNDRY ERRORS.

I was once preparing a balance sheet with a large amount of debtors, and did not at first carefully look into the detailed schedules. It was found later on examination that the debtors consisted of one large account, and those people had a *contra* account with the company on the credit side that swamped it completely. It is important—and this is a general point—that we should under-

stand how the items shown in the final accounts are made up.

As an instance. There were two branches of a particular company that worked entirely on their own, and the auditors verified that one branch account agreed with the other. One branch was sending money to the other to make payments, and the cashier who was receiving the money took the particular sum—say, £500—and made an entry in his book crediting the people downstairs and debiting £300 to purchase account and £200 to rent account. There was an omnibus item in the profit and loss account which included rent and other amounts, and if the auditor had analysed it he would have seen that the rent was £200 in excess of what it should have been. In regard to the particular account to which I have just referred, if you are given the job of agreeing a head office account with a branch account, test every item, and if you find any discrepancy satisfy yourself that you know why.

Two important things arise out of what I have said to-night. First, you must understand what you are doing and be honestly satisfied before you pass an item. The second point that arises from the errors I have encountered is that the internal check is so important. When you come to practical auditing, a lot of your work and the errors that you will find will depend on that check. I do not want you to think that I am setting myself up as a complete expert on auditing, but I hope that to-night you will have learned something that will save you from making such errors as I have tried to describe.

Discussion.

Mr. C. E. GREEN: Would the lecturer be good enough to give some indication of the evidence the auditor would call for in the case he mentioned where the debit and credit transactions in the cash book were concealed by means of a contra?

Mr. A. CARNEGIE HERON: In connection with the audit of stock, does Mr. Rice not think that a great deal of care should be given to the possibility of items of plant being included therein, and that even without a great knowledge of the industry or trade concerned glaring errors may be detected in extensions on the stock sheets?

Mr. L. W. AMBROSE (Incorporated Accountant): I would like to ask the lecturer how he would deal with incoming club cash such as subscriptions or donations.

Mr. F. R. WITTY (Incorporated Accountant): One or two points occurred to me during Mr. Rice's lecture that may be of interest to those present. He mentioned control accounts and journal entries wrongly posted thereto. Well, it has been my experience that control accounts do strike at the fundamentals of book-keeping. It has always seemed to me a very good exercise to make up control accounts, or at any rate make out the headings that would go into control account; that is a very good test of a junior's knowledge of the books. Mr. Rice also mentioned audit notes. Sometimes notes are made and then promptly forgotten. I had rather an interesting case not long ago. We were checking up a debtor's book in which the amounts owing were entered; when an amount was paid the date was simply entered, and we came across two or three cases where the dates had been erased. We queried these with the book-keeper, who said, "Oh, yes, that is quite all right; the date was put in by mistake." That seemed a reasonable explanation at the time. But next year we were checking up the book and we found that thirty or forty dates had been erased. We went into the matter and ultimately found that the book-keeper had been misappropriating those amounts to the tune of about £1,200. That, I think, emphasises the need, before you start on an audit, to refer to the previous year's audit notes. In regard to wages, I find that you can generally, if you insist on it, get receipts from the people to whom the wages are paid. It may be argued that it is impossible where several

hundred workpeople are employed, but that is just where it is more necessary than ever. It can be done and it is worth doing.

Mr. J. CHILMICK: Although the lecturer did not refer to an auditor's duty with reference to bills of exchange, I should like to ask what would be the duty of an auditor in a case where there was no stamp on a bill of exchange?

Mr. J. A. ALLEN (Incorporated Accountant): There are two points I would like to stress which the lecturer did not specifically mention, although those he did mention were most enlightening and useful. The first point is with regard to the checking of a sales ledger. It may be that a junior clerk engaged on that work has just concluded checking the balances when the time for leaving off work comes, and he says, "I will finish this to-morrow." It does not, perhaps, occur to him that during the interval someone may take the opportunity of adding or altering a figure here or there on the schedule in order to make a purposely erroneous cast of the total appear correct. The other point is this: We should use that intelligence, in the examination of ledger accounts, which our lecturer has recommended that we should never fail to exercise. For example, if it should appear from the ledger that a concern like the Imperial Chemical Industries or the Prudential Assurance Company owes, say, £150 for eighteen months, the intelligent auditor would immediately be suspicious.

Mr. CEDRIC N. WALTER (Incorporated Accountant): I think the Lecturer dealt so fully with the subject that he has not left us much for discussion, but I would like to say one word just as a corollary to one of the points he mentioned. He touched lightly on returned cheques—where they were produced in place of vouchers. Of course we know that a returned cheque is not a proper substitute for a voucher, but as a corollary to it, how often do we examine a continuous series of returned cheques? I would point out that it is possible for a cheque to be made out to a limited company, a crossed cheque, and then someone, who has the power to do so, writes "Pay cash" across it, and alters the words "Or Order" to "Bearer." Now, if that cheque was taken to the bank, the bank would hand over cash for it. Some years ago I came across a case where that was being done—it was not by the employee of a limited company, but of a private individual. We asked the owner of the business for the returned cheques from the bank, and he would not produce them. He said he trusted his manager, who had power to sign cheques, and he looked upon a request of that nature as reflecting on his honesty. Things went on like that until we were able to get hold of the matter from another angle. Had those cheques been produced when we asked for them, a fraud which had been going on for some time would have been immediately discovered.

Mr. G. ROBY PRIDIE (Incorporated Accountant): In offering my congratulations to Mr. Rice on his excellent paper I would like to give a practical illustration of the necessity of carefully watching any undue delays in the prompt banking of moneys received, a point to which the lecturer drew special attention. Some years ago I was much concerned because in one of my client's matters I found that his cashier was consistently in arrear with his books and from time to time I pressed my client to see if this state of affairs could not be remedied. Eventually his clerk received instructions to work late, if necessary, but at all costs to bring his work up to date. Then one morning soon after I had arrived at the office, the telephone bell rang and my client said, "Mr. So-and-So did not turn up this morning; he had an accident last night and is in the hands of the police. What shall I do?" I replied, "Count the cash," and received the answer, "What do you mean?" I said, "Never mind, but count the cash, and I will come down." On arriving at my client's office I was not long in discovering my previous suspicions were well founded and that the cashier for some time past had been steadily defrauding his principal by the very simple method of making delay in banking the gross moneys received by him, and further, that by adopting

the practice commonly known in our profession as the snowball system of fraud, he was able skilfully to cover up his tracks. Another important point made by the lecturer was that frequent reference should be made to the notes of the previous audit in the course of current audit, and in particular he pointed out the advantage of making a comparison between the stock schedules of the respective periods. I have in mind a back duty investigation covering a period of close on twenty years in connection with a business primarily concerned with reconditioning, building or buying houses for resale. Among the records examined were found various schedules of "Works in progress" which had been periodically drawn up as at the close of each financial year. On these being carefully examined it became evident that the clerk in charge of the annual audit had been content with a mere scrutiny of the current schedule in support of the closing figures of the balance sheet, but had not realised the necessity of comparing this schedule with that of the preceding year in order that he might satisfy himself that all the work on contracts included in the earlier schedule had either been charged out to customers during the subsequent year or brought forward into the new schedule. The fact was brought to light that by the omission to take this precaution several appreciable amounts were lost sight of, with the consequence that at no time were these items charged out against customers, nor were they brought forward on to the subsequent schedule of work in progress.

Mr. RICE: I agree that stock sheets should be examined very carefully; even in casting them one often comes across quite serious mistakes. Certainly an auditor who has had experience does gain a knowledge of various businesses that helps him to trace an obvious error. You do get people putting plant in stock, but that would be discovered by an examination of the detailed sheets. You cannot always look at every small item, but if you concentrate on a reasonable number of them, you can pick out errors. I said at the beginning that I did not intend to deal with questions over the whole range of auditing. With regard to Mr. Ambrose's point about checking the cash in a club, the main question is one of internal check. A club would have a list of members and their subscriptions would be payable by a certain date. If any subscriptions remained unpaid by people who were receiving the benefits of the club, that could easily be checked. I remember a case where people were getting benefits from a certain institution, and the fees did not seem to be coming in. We went into the matter and circulars were sent out to the members. We found how many circulars were posted and compared this with the list of members. With regard to a bill of exchange not being stamped, I do not think I have ever come across that, but it would have to be stamped and a fine paid if required. I once came across a case of debentures that were not stamped and they had to be stamped afterwards and a fine paid. With regard to contra accounts, I agree that it is difficult to verify the items. The main point is, Why can this man draw cheques without somebody else having the right to examine them? If you find one individual who can on his own responsibility pass and pay accounts, you are going to have a difficult time checking him, and the most careful examination is required. With regard to endorsed cheques, I think we all agree that they are a most unsatisfactory type of voucher. The banker is not concerned with who endorses them. It is a slight satisfaction to get a receipt on the back of them, but usually there is some evidence that can be found with regard to the payment—evidence that the payment was legal and correct.

Votes of thanks to the Lecturer and Chairman terminated the proceedings.

PUBLIC AUDITORS.

The name of Mr. W. R. Frost, 3, High Street, Totnes, was accidentally omitted from the list of Incorporated Accountants appointed as Public Auditors which appeared in our February issue.

West of England Incorporated Accountants.

ANNUAL DINNER.

The annual dinner of the West of England District Society of Incorporated Accountants was held at the Royal Hotel, Bristol, on February 11th. The PRESIDENT (Mr. F. A. Webber, O.B.E., J.P., F.S.A.A.) presided over a large and distinguished gathering, which included the Lord Mayor and the Lady Mayoress of Bristol (Alderman and Mrs. J. J. Milton); Mr. Walter Holman, F.S.A.A. (President of the Society of Incorporated Accountants and Auditors); the Mayor of Bath (Captain Adrian Hopkins); Mr. F. A. Wilshire (Recorder of Bridgwater); Sir Lionel Goodenough Taylor, J.P.; Mr. R. Waller (President, Bristol Chamber of Commerce); Mr. R. F. Theobald (President, Bath Chamber of Commerce); Mr. S. J. Bayliss (President, Bristol Law Society); Mr. H. Wheeler (Official Receiver); Mr. Arthur Collins, F.C.A. (President, Bristol Society of Chartered Accountants); Mr. F. Organ (Chairman, Bristol Stock Exchange); Mr. M. O. McAuliffe (Chief Education Officer of Bristol); the Rev. H. A. Watts, M.A. (Lord Mayor's Chaplain); Mr. L. T. Little, B.Sc. (Deputy Secretary, Society of Incorporated Accountants); Mr. H. O. Johnson (Vice-President of the District Society); Mr. H. S. Bull (President, Devon and Cornwall District Society of Incorporated Accountants); Mr. Percy H. Walker (Honorary Secretary, South Wales and Monmouthshire District Society); Mr. P. D. Pascho (Honorary Secretary, Devon and Cornwall District Society); Mr. E. M. Tapson, F.S.A.A. (City Treasurer); and Mr. H. S. Twigg, A.S.A.A. (Assistant City Treasurer).

Mr. F. A. WILSHIRE (Recorder of Bridgwater), proposing "The City and County of Bristol," said he would like to frame this toast as a Statement of Claim, the claim being that the City of Bristol was second to none. Last week the City and County of Bristol applied for a loan of £2,000,000 and the sum was £50,000,000 within five minutes and the cry was "Still they come." That showed the position Bristol occupied in the investing world. It was a wonderful response, and he thought it would be a nice thing for them to remember that it was done with the Labour Party in a majority in the Town Council and with their Lord Mayor a Labour man. It was evident that people believed in the two old slogans, "Bristolians sleep with one eye open," and "Ship-shape and Bristol fashion." Bristol was well served by her sons and her daughters, and he would like to pay a tribute to the President, Mr. Webber, who had told him recently the number of meetings he had attended. Mr. Wilshire thought they were very fortunate in having a man like Mr. Webber on the Town Council.

The LORD MAYOR OF BRISTOL (Alderman J. J. Milton), in response, said it was true the city was second to none and it was one of whose glories they never tired of telling. Accountants were required to have a great deal of learning for the many examinations they had to pass. Whenever people saw an Incorporated Accountant's name at the bottom of an account or a balance sheet they knew that it was "the truth, the whole truth, and nothing but the truth." People in this country placed every confidence in it without any question, and not only people but governments accepted the word of an Incorporated Accountant. He was not an accountant, but he was Lord Mayor of a very great city and they had accounts and similar matters to keep in order. They claimed that in the City of Bristol they provided a good investment for the ratepayers.

Mr. R. WALLER (President of the Bristol Chamber of Commerce), proposing "The Society of Incorporated Accountants and Auditors," told some interesting facts about the Society and said it was established in 1885, starting with the quite modest membership of 300. Last year the membership was 7,216, and of that number 95 per cent. had qualified by examination. The object of the Society was to elevate the status and procure the advancement of the profession of accountancy. A very high standard of examination was required, as was evident by the fact that only about 44 per cent. were able to pass the Intermediate in 1937 and about 47 per cent. to pass the Final. In addition to this the Society had organised post-graduate courses for the young practitioner at Caius College, Cambridge, in 1934 and 1936, and a similar Course was to be held in Oxford this year. There was a Research Committee formed in 1932, and it was doing very useful work in matters of professional interest. The advantages of membership of such a professional body could be well appreciated. In our present highly civilised state no business could be carried on without looking to the accountancy side. Money was just as important as technical skill in the running of a business, and of course it was most important in the development of commerce and in our commercial outlook. It was very difficult to realise that when the Society was formed over 50 years ago, there were practically no commercial undertakings outside the railway companies with a capital of £1,000,000, whereas to-day that was really quite a modest amount of capital and many companies ran into ten, fifteen and twenty million pounds. There was a demand throughout the world for men possessing special knowledge of figures and finance and, as the Lord Mayor said, the investing public looked to the audited certificate of the accountant as members of the public looked to the vet's certificate when buying a dog. They relied absolutely upon the certificate for the truth of the statement. It was a highly responsible job. The education of an Incorporated Accountant was very wide and every man taking the examinations had to study hard in accountancy and allied subjects for a period of at least five years. Economics and law, in addition to book-keeping and accounts, were among the subjects, and upon the completion of their training the young accountants must be in a position to bring a sound judgment to bear on whatever problem was at hand. The great thing in the early stages of training was possibly not just to pass examinations but to be able to apply that knowledge later on in life. They were fortunate to have with them the President of the Society, Mr. Walter Holman. Mr. Holman qualified with honours in 1911, and after distinguished service in the Great War he devoted himself to the Society's educational work, and became a member of the Council in 1926. He had been an examiner since 1928, and was also a Freeman of the City of London and a Governor of the City of London College. They were very fortunate in this country in having such men who gave their ability and experience to help their profession, and he hoped that state of things would long continue. Such men as Mr. Holman did untold good to any profession. (Applause.)

Mr. WALTER HOLMAN (President of the Society of Incorporated Accountants) said he thought the District Societies could be divided into two classes, those who invited ladies to their dinners and those who did not. At Bristol they had chosen the better part, little realising that in doing so they had placed an additional burden on the one whose duty it was to reply to the toast of the Society. Mr. Holman said he desired to thank Mr. Waller very sincerely on behalf of the Incorporated Accountants

of the West of England and of all their members for the manner in which he had proposed the toast of the Society. He did not feel that he was in a position to contradict any of the complimentary things he had said about the Society, and he had left very little to be said about its work. To the Chairman, Mr. Webber, he wished to express the thanks of the Society for his work on behalf of the members in the district and of the whole membership of the Society. The success of the Society largely depended on the vitality and efficiency of its Branches and District Societies, and these depended almost entirely on their Secretaries. Mr. Webber had been Secretary of the West of England District Society for a quarter of a century, and those at headquarters owed much to the care and efficiency with which the affairs of the Society had been dealt with in that part of the country. It said much for Mr. Webber's public spirit that in addition to his own practice and his work for the profession there, he had found time to take a share in the public life of the City of Bristol and to interest himself in its educational activities. His election as President of the local Society was proof of the esteem in which he was held by his professional brethren in the city and the honour recently conferred upon him by His Majesty the King was an expression of the high regard entertained for him by all. Referring to taxation, Mr. Holman said that taxes generally were not popular, and they might have noticed that in order to make the new tax palatable it was described as a contribution. In its main outline the National Defence Contribution appeared to be simple but they were finding in practice that the terms of the Act contained unsuspected complications, and he felt that one of the most valuable services which the Society had rendered recently to its members had been the preparation and publication of a pamphlet dealing with this new tax. He wished also to tell the members that an invitation had been given to and accepted by one of the leading taxation experts in the profession to lecture on the National Defence Contribution at the Society's refresher course which was to be held at New College, Oxford, in July next. These refresher courses were a valuable part of the educational work of the Society and he hoped to see at Oxford this year some representatives from the West of England district. (Applause.)

The CHAIRMAN (Mr. F. A. Webber), proposing "The Guests," spoke of how closely the law and accountancy were linked together.

The MAYOR OF BATH, who responded, said his limited knowledge of accountants suggested that they were in the main misunderstood and definitely weighed down with the cares of their profession. This was perhaps not remarkable as the first professional accountant in the British Isles was one George Watson, who was born in Edinburgh in 1645. It seemed possible that their dour Scottish ancestry had left its mark. A learned Judge once compared them to watch-dogs, but said they were not necessarily bloodhounds, so it seemed their pedigree was at any rate a trifle mixed. (Laughter.)

Captain HOPKINS, who also responded, said that the profession was the sheet anchor of the man in the street, as the investor relied entirely on the accuracy of the statements and accounts which its members issued. Their multitudinous accomplishments included the formation and the liquidation of companies, all trustee matters, the investigation of fraud, and receiverships in lunacy and the like.

Reviews.

Standard Practice in Auditing. By W. J. Back, A.S.A.A., with a Memorandum on the Use of Machines in Accounting by R. N. Barnett, A.S.A.A. London: The Society of Incorporated Accountants and Auditors, Incorporated Accountants' Hall, Victoria Embankment, W.C.2. (44 pp. Price 2s. 6d. net.)

This book has been issued under the auspices of the Research Committee of the Society of Incorporated Accountants. The authors are those whose names appear above, but the manuscript of the book has been submitted to criticism by other members of the Research Committee and by practising accountants in London and the provinces so as to represent the composite experience of a number of research workers. Commencing with a definition and classification of audits, Mr. Back proceeds to consider statutory audits which are mainly those coming within the provisions of the Companies Act, 1929. He deals with the auditor's duty and the method of verification of the various assets and liabilities, and then considers the Profit and Loss Account and the methods of verification of the transactions appearing therein. A separate chapter is devoted to audits under direct contract. These include private or partnership audits, share transfer audits, taxation statements and trust accounts. In the appendix the use of machines in accounting is discussed by Mr. Barnett. The general uses of different types of machines are explained, as well as the alterations in book records entailed by the introduction of these mechanical appliances. The book is a valuable condensed summary of an auditor's duties, and should be studied by every practising accountant.

National Defence Contribution. By Roger N. Carter, F.C.A., and Herbert Edwards, M.A. London: Gee and Co. (Publishers), Ltd., 6, Kirby Street, E.C.1. (54 pp. Price 5s. net.)

Mr. Carter, as our readers know, is well qualified to deal with taxation matters, and he has been assisted in the production of this book by Mr. Edwards, who was for some time in the Inland Revenue Department. The method adopted by the authors is to deal seriatim with each section of the Finance Act bearing upon the subject and also the rules in Schedules IV and V. Much information of a useful character is imparted, and the examples of computations relating to losses brought forward and wear and tear allowances are worthy of careful study.

Pitman's Office Desk Book. 4th Edition. London: Sir Isaac Pitman & Sons, Ltd., Parker Street, Kingsway, W.C.2. (282 pp. Price 2s. 6d. net.)

This is a handy reference book for general office purposes, and contains a great deal of useful information. The subject headings are arranged alphabetically, and therefore do not require a separate index. An idea of the varied character of the contents may be gathered from the fact that among a host of other subjects it deals with card indexes, copyright, customs tariff, decimalisation of money, foreign exchange, logarithms, legacy and succession duty, sale of goods, slide rules and passports.

Principles of Company Law. 2nd Edition. By J. Charlesworth, LL.D., Barrister-at-Law. London: Stevens & Sons, Ltd. and Sweet & Maxwell, Ltd., Chancery Lane, W.C.2. (320 pp. Price 7s. 6d. net.)

In the present edition the first chapter has been partly re-written, and various alterations have been made in connection with the subjects of registration, commission, directors, dividends, meetings and receivers, and in other respects the book has been brought up to date. Apart from the general law relating to companies, chapters are devoted to compulsory and voluntary winding-up, reconstruction and amalgamation, and statutory companies.

Meetings of Private Companies. By Albert Crew, Barrister-at-Law. London: Jordan & Sons, Ltd., Chancery Lane, W.C.2. (162 pp. Price 5s. net.)

This manual deals with the conduct and procedure at meetings of private companies both as regards directors and members. It is well known that formalities in relation to private companies are often somewhat neglected, and the intention of this book is to assist those in control of these companies to carry out their duties in such a way as will avoid subsequent trouble and misunderstanding. To assist in this connection Mr. Crew provides specimen agenda, minutes, precedents of resolutions, and even a model chairman's speech. For directors and secretaries of private companies the book provides much useful assistance. Shareholders will also find much information that will interest them.

Obituary.

HENRY BRAMALL.

We regret to record that Mr. Henry Bramall, F.S.A.A., died on January 25th, at the age of 71. Mr. Bramall had been practising as an Incorporated Accountant in Sheffield since 1893. In 1930 he took into partnership Mr. J. H. Godfrey, A.S.A.A., formerly a member of his staff, and founded the firm of Henry Bramall & Co. He was for some time a member of the Committee of the Incorporated Accountants' District Society of Sheffield.

Mr. Bramall was a director of C. T. Skelton & Co., Ltd., Sheffield. He was prominently identified for many years with South Street Methodist Church.

JAMES ALFRED CHARLTON.

Mr. J. A. Charlton, F.S.A.A., who had been a member of the Society of Incorporated Accountants since 1897, died on February 10th at the age of 74. For nearly half a century he had been associated with Messrs. Hindley, Wilde & Charlton, Manchester, being admitted to partnership in the firm in 1911. Mr. Charlton was a member of the Manchester Diocesan Board of the Church of England. He was a director of a number of companies, and was highly respected in Manchester. The funeral service was largely attended, and a warm tribute to the memory of Mr. Charlton was delivered by the Rev. Canon Paton Williams.

JOHN ROBERTS.

Mr. John Roberts, F.S.A.A., Manchester, who died on January 26th, was 78 years of age and had been in public practice for over forty years. He was admitted to membership of the Society of Incorporated Accountants in 1902. He had been Secretary of the Manchester Law Clerks' Friendly Society since 1921, and he held many appointments in connection with the Welsh Presbyterian Church, including that of General Treasurer of the North Wales C.M. Loan Fund.

WILLIAM COVENTRY WESTLAKE.

We have learned with regret that Mr. William C. Westlake, F.S.A.A., died on January 26th, at the age of 79. Mr. Westlake, who became a member of the Society of Incorporated Accountants in 1900, had been in public practice in Southampton for over 40 years. He was deeply interested in entomology and was also a keen sportsman, his pursuits including football, skating, yachting, golf and bowls.

The funeral service took place on January 29th at St. Luke's Church, Southampton.

Law Affecting Private Limited Companies.

A LECTURE delivered to the Incorporated Accountants' District Society of Yorkshire by

MR. DAVID I. SANDELSON, O.B.E.,
Solicitor, Leeds.

Mr. SANDELSON said: I have been invited to address you this evening on the subject of Company Law, a subject which should certainly be of interest to the members of your profession. No doubt the rapid development of the limited company and the increasing number of registrations each year are within your knowledge, but a few statistics may be of interest. Despite national and international crises, there were in England a larger number of new companies registered in 1936 than in any preceding year. The total was 13,742, an increase of 639 over the previous year, which was itself a record. The total nominal capital, £158,221,238, although not a record, was £21,587,128 in advance of the 1935 figures. The increases in number and total capital were both attributable to private companies, of which there were 13,324, against 12,673 in 1935, an increase of 651, with capitals aggregating £108,861,595, against £81,763,377, an increase of £27,098,218. On the other hand, public company figures showed a slight diminution, the number being 418, compared with 430, a decrease of 12, and total capital £49,359,643, compared with £54,870,733, a decrease of £5,511,090. The real proportion, however, of public companies to private companies is greater than appears on the surface, inasmuch as many concerns originally incorporated as private companies are subsequently converted into public companies. In point of fact, there is a growing tendency to register a private company and within a few days alter the Articles by special resolution so as to convert the company into a public company, with the result that the statutory provisions as to obtaining a trading certificate and holding a statutory meeting are thereby avoided.

A complete analysis of the figures of 1937 is not yet available, but the continued increase in the number of companies directly affects your profession, as every company must have an auditor. The Companies Bill of 1907 provided that only a professional accountant should be eligible for appointment as auditor of a company, but the provision was not adopted, and the Legislature has not yet thought fit to remedy this defect. In my opinion, amending legislation on this point is very desirable in the best interests of the business world in general, and I feel sure that you will agree with me in this respect.

As I have said, every company must have an auditor. What a vast field for your activities is thus open to you. Certainly company practice is a subject of topical interest to the accountancy profession, and I have been requested to take the material for this address from that subject. Here again, the subject, like the field of your activities therein, is vast—if I may use the adjective again. I do not propose to speak at great length, and obviously I must leave much unsaid. Perhaps it were better so, for I cannot promise you amusement, unless you find amusement in the pursuit of knowledge. But I will do my best to be explicit and concise.

I propose to confine my paper to a selection of practical points of interest to the practising accountant.

CONVERSION OF A BUSINESS INTO A COMPANY.

In the first place, I propose to say a few words with regard to what is popularly referred to as the conversion of a business into a company.

As I need hardly explain, where a company is formed to take over an existing business the business is not "converted into a company" but is acquired by a company formed for the purpose of the acquisition. The "conversion of a business" is, however, an expression largely used in commercial circles and no doubt it is well understood by all of you.

Doubtless also the main advantages of converting a business into a company are more or less familiar to you, and the barest of references will suffice. The liability of the partners carrying on the business, instead of being unlimited, becomes limited to the amount (if any) unpaid on the shares held by them in the company. The interests of the owners of the business can easily be provided for by an allotment to them in due proportion of the shares or debentures forming the consideration for the transfer of the business to the company. Facilities are afforded for obtaining additional working capital. A director's death, or his retirement from the company, will not affect financially those continuing the conduct of the business. Employees may be afforded an opportunity of acquiring interests in the business, subject to any necessary safeguards. A trader who desires that his business shall be carried on after his death for the benefit of his family can direct his executors or trustees to form a private company and to transfer to it the business and its assets for fully paid shares, in the allotment of which effect can be given to his express directions. And so on.

The preparation of any legal documents should, of course, be entrusted to a solicitor. On the other hand, it is within the province of the accountant—and, indeed, it is his particular function—to assist in determining the basis upon which the business shall be transferred where the company is formed to take over an existing business.

No doubt you are all familiar with the routine work of company formation, and I will not dwell on that point.

In determining the date of sale, careful consideration should be given to the income tax position, and I would refer you in particular to the provisions of Rule 11 (2) of the Rules of Cases I and II of Schedule D of the Income Tax Act, 1918 (as amended by sect. 32 of the Finance Act, 1926), and the provisions of sect. 31 (1) (a) and (b) of the Finance Act, 1926.

At the date of sale the business of the vendor will be deemed to have been discontinued and the vendor will accordingly be assessed on the actual profits or gains for the period from the preceding April 6th to the date of sale. The computation of the profits or gains will be made according to the ordinary income tax principles with the ordinary allowances for loss, but without reference to any period of account other than that just mentioned. If an assessment has already been made without knowledge or regard to the discontinuance it will be corrected by additional or reduced assessment, as the case may be.

Moreover, the assessment for the year of assessment preceding that in which the business is discontinued may be reopened by the officials if it is found that the profits of such preceding year were more than those on which the assessment for that preceding year were made, and an additional assessment for such preceding year may be made so as to bring the amount on which the tax is charged up to the actual profits of that year (April 6th to April 5th). It may be of interest to note two points in this connection: (1) that the vendor is

not given any relief if the assessment for the preceding year has been calculated on any amount greater than the actual profits, and (2) that the word "may" which appears in sect. 31 (1) (b) of the Act of 1926 (the section governing the assessment to tax for the preceding year) is in practice always construed as "will" by the officials, and that no compassionate treatment can be expected.

The company will, in its turn, be assessed to tax on the actual profits or gains made from the date of sale to the next ensuing April 5th, on the same basis as if a new business had been commenced.

By my references to the date of sale, I do not mean any past date from which the company is under the agreement deemed to have acquired the business, but the date of the agreement itself as that is the date which is usually taken by the officials as being the date of the change of ownership.

The question as to whether the agreement should be executed before or after the next ensuing April 5th is one which definitely calls for the assistance and advice of the accountant.

In the generality of cases where a company is formed for the purpose of acquiring a business, it is desired to save as much stamp duty as possible on the transfer of the business and assets to the company, and the procedure which until recent times was perhaps the most usual was to except the book debts (thus avoiding a liability to *ad valorem* duty thereon), the vendor remaining responsible for the discharge of his own liabilities. The objection, however, to excepting the book debts from the transfer is that neither the company nor the vendor would be entitled to any allowance in respect of income tax by reason of losses incurred in the course of the collection of the excepted book debts (for the reason that, on the one hand, the company would merely be acting as an agent for the purpose of collecting such debts whilst, on the other hand, the vendor would cease to carry on business when the sale is completed), whereas if the said book debts were included in the transfer the company would set off against its trading profits a reasonable amount in respect of bad and doubtful debts, and in practice the tax officials do not inquire whether any part of that amount is attributable to debts forming part of the assets acquired by the company.

The alternative procedure now frequently adopted is to include the book debts in the sale—the company undertaking to discharge the liabilities—and to carry through the sale as a cash transaction, a sufficient number of shares being taken up for cash so as to enable the company to pay the purchase price in cash—the transaction actually being completed by means of an exchange of cheques. That is to say, the company gives the vendor a cheque for the purchase price and the vendor gives the company a cheque for the amount payable in respect of the shares allotted to him or his nominees. As I need hardly point out, such an exchange of cheques would not serve any useful purpose if the cheques are not cleared, but in the ordinary course the company's account is opened at the same branch of the bank at which the vendor has his account. Where this is the position, there is no difficulty in arranging with the manager of the branch that the cheques shall be cleared simultaneously, and a record of the receipt and payment by the company is thus made in its pass book. If this alternative procedure is adopted, the agreement will not be required to be filed (with a consequent saving of publicity) and may be engrossed on paper previously impressed with the fixed duty of 10s. so that it need not be produced to the stamp officials after execution. By this means the question of paying *ad valorem* duty, except in respect of any freehold or leasehold property

which is conveyed or assigned to the company, is deferred until the company deems it necessary or desirable to take an assignment of any of the other assets comprised in the sale, and in most cases it is unlikely that such an assignment will ever be required except in respect of any book debts which were subsisting at the date of sale and cannot be recovered without taking legal proceedings.

Where an agreement for sale is not required to be filed and has been engrossed on paper impressed with the fixed duty of 10s., it is by virtue of sub-sect. (4) of sect. 59 of the Stamp Act, 1891, sufficiently stamped for all practical purposes.

It is to be noted that the sale should not be carried through as a cash transaction if the vendor has been carrying on business at a loss in respect of which a substantial relief from income tax might be obtained in the event of the business being transferred in consideration solely or mainly of the allotment of shares. In this connection I would remind you that the relevant statutory provisions are sect. 33 of the Finance Act, 1926, and sect. 29 of the Finance Act, 1927.

THE AUDITOR.

As I mentioned a few minutes ago, every company must have an auditor, and you, of course, are familiar with the provisions of sect. 132 of the Companies Act, 1929, as to the appointment and remuneration of auditors. But there are two points which I desire to mention.

Where the first auditor is appointed by the directors at any time before the first annual general meeting (in which case he will remain in office until that meeting unless previously removed by the company at a general meeting of which notice has been served on the auditor in the same manner as on members of the company), he should be careful to obtain, in order to protect himself as far as possible, a certified copy of the directors' resolution appointing him as the first auditor, particularly where his remuneration is fixed by the directors, which is permissible in the case of an auditor appointed before the first annual general meeting.

The other point is with reference to the supersession of auditors. This is naturally a matter on which there is strong feeling throughout your profession. Under sub-sect. (3) of the said section, a person other than a retiring auditor may not be appointed to the office unless notice of an intention to nominate him has been given to the company by a member at least fourteen days before the annual general meeting. The company must send a copy of any such notice to the retiring auditor, and also inform the members not less than seven days before the meeting. The section, however, does not make provision for any communication by the retiring auditor with the person nominated to supersede him, and I gather that the question of supersession has occasionally been raised in an acute form. In July of 1934 the Council of the Institute of Chartered Accountants passed the following resolution:—

"The Council suggest that in all cases where a change of auditors of a company is proposed any member of the Institute before accepting nomination for election should communicate with the existing auditors."

Since then it has apparently been felt that a more definite pronouncement would be desirable, and at a meeting of the Council of the same Institute held last April the following further resolution was passed:—

"Where a change of auditors of a company is proposed it shall be the duty of any member of the Institute before accepting nomination for election to communicate with the existing auditors with a view to ascertaining the circumstances in which a change of auditors is proposed."

In thus placing the duty of members in this matter on a level with the highest standard of professional conduct, the Council has taken a step which will, I am sure, receive your unanimous approval.

DUTIES AND RIGHTS OF AUDITOR.

The subject of the duties and the rights of an auditor is hardly within the scope of this lecture, but three points occur to me in this connection, and even the briefest reference thereto may be of some use to you.

First, under sect. 134, sub-sect. (1), of the Companies Act, 1929, the auditor must make a report to the members on the accounts examined by him and on every balance sheet laid before the company in general meeting during his term of office, stating whether he has obtained all the information and explanations he has required, and whether in his opinion the balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of his information and the explanations given to him, and as shown by the books of the company. It has been decided, however, in *re Allen, Craig & Co. (London)* (1934, Ch., 483), that the duty of the auditor has been completed when he has sent his report to the secretary of the company. The auditor need not send a copy to each member, and the secretary or the directors must perform the statutory duties as to convening a general meeting at which the report will be read.

Secondly, an indemnity clause in Articles in favour of the auditor of a company cannot now be relied upon, as under sect. 152 of the Act of 1929 any provision in the Articles of a company or in any contract with a company or otherwise for exempting any person employed by the company as auditor from, or indemnifying him against, any liability which by virtue of any rule of law would otherwise attach to him in respect of any negligence, default or breach of duty or breach of trust of which he may be guilty in relation to the company is void. It is, however, still competent to a company to provide by its Articles for an indemnity to an auditor who is successful in defending any proceedings, civil or criminal, against any liability incurred by him in such defence, or in a successful application for relief under sect. 362, which is a penal section for miscellaneous offences.

Thirdly, there has come to my notice from time to time instances of what may loosely be called "the window dressing" of the accounts to be laid before the company in general meeting, and whilst I have every reason to believe that these acts are done in good faith, I request you to remember that the auditors of a company must act impartially in every particular. As an instance of what I have in mind, I would refer you to sect. 128 of the 1929 Act. This section provides that the accounts to be laid before the company must contain particulars of any loans which during the period to which the accounts relate have been made by the company to any director or officer of the company, including any such loans which were repaid during the said period. Now it came to my knowledge in one case where loans had been made by a company to one of its directors, that the director repaid the amount owing to the company immediately before the preparation of the accounts, and upon the completion thereof the company again made the loan, and as no loan was outstanding at the actual date upon which the accounts were taken, no reference to the loan was made therein. The auditor, I know, has acted in perfect good faith, but it is clear from sect. 128 that he has not properly performed his duty and that the accounts are not in order.

COMPANY LEGISLATION AND REDUCTION OF CAPITAL.

The principle of limited liability was first introduced by the Limited Liability Act, 1855, and in the following year the law was codified in the Joint Stock Companies Act, 1856. Other Acts affecting companies were passed in 1857 and 1858, and in 1862 the law relating to companies was amended and consolidated by the passing of the Companies Act, 1862, which remained the principal Act affecting companies for 46 years. The Act of 1862, it may be noted, did not include any provision whereby the reduction of the capital of a company limited by shares could be effected, but this omission was remedied by the Companies Acts of 1867, 1877 and 1880, and the relevant provisions are now set out in sects. 55 to 60 of the Act of 1929.

The proceedings in connection with a scheme for reducing the capital of a company are complicated and usually somewhat protracted, but I desire to mention one practical point which is worth remembering. Whenever a company passes a special resolution reducing its capital, it should also pass a further resolution that, upon the reduction becoming effective, the reduced share capital shall be increased by the creation of new shares of a nominal value equivalent to the amount of the reduction. In such a case the Registrar of Companies waives any claim for payment of capital duty and registration fees, and does not require the prescribed forms of statement and notice of increase of capital to be registered. The company thus secures, without cost, a number of shares which will be available for issue as and when required. On the other hand, if such further resolution is so framed that it takes effect whether or not the reduction is confirmed by the Court, the liability to duty and fees cannot be waived and, of course, such duty and fees will fall to be paid where the point I have mentioned has been overlooked and the increase of capital is effected at a later date.

RECONSTRUCTION.

Now, I wish to make a few observations with regard to the reconstruction of a company, a process which usually involves the sale of the undertaking of the company to a new company. Frequently the object is to raise fresh capital, which is effected by issuing partly paid shares in the new company to the members of the old company, and calling up the balance on the new shares, but, of course, any dissentient members are entitled under sect. 234 of the Companies Act, 1929, to require the liquidator of the old company to abstain from carrying through the scheme or to purchase their interests at a price to be determined by agreement or by arbitration in the manner provided by the said section.

Reconstruction may be resorted to for the purpose of amalgamating two or more companies or taking new powers in the Memorandum or rearranging the capital of the old company or effecting compromises with creditors by inviting them to take shares or debentures in place of their claims as creditors, and occasionally a company which has prospered but has not an accumulation of profits which could be capitalised reconstructs so as to give its members two or more shares for every share already held by them.

The stamp duties, both on the capital of the new company and on the instruments of transfer, formerly rendered such a transaction very costly. Relief from duty may, however, be obtained where the transaction falls within the Finance Act, 1927, sect. 55, as amended by the Finance Act, 1928, sect. 31, and the Finance Act, 1930, sect. 41. To obtain such relief in a case of reconstruction involving the winding-up of the old

company and the formation of a new company, it must be shown to the satisfaction of the Commissioners of Inland Revenue that the new company is to be incorporated, or that its nominal capital has been increased, with a view to the acquisition of the undertaking or part of the undertaking of the old company, and that the consideration for the acquisition (except such part thereof as consists in the transfer to or discharge by the transferee company of liabilities of the existing company) consists as to not less than 90 per cent. thereof in the issue of shares of the new company to the holders of shares of the old company.

If relief from duty is to be claimed, it is essential that the conditions laid down in sect. 55 of the Act of 1927 should be complied with exactly. The expression "issue of Shares" in sub-sect. (1) (c) is only satisfied by actual registration of the holders of shares of the old company in the register of members of the new company in respect of the shares to which they are entitled. That is to say, the conditions are not satisfied by the issue of shares in the new company to persons who have merely agreed to buy shares in the old company from the registered holders of shares in that company, nor by the issue of shares in the new company to persons who have agreed to buy shares in the new company from the registered holders of shares in the old company to which the latter are entitled under the reconstruction agreement (see *Brotex Cellulose Fibres v. Inland Revenue Commissioners* (1933), 1 K.B., 158).

Nor will it suffice that letters of allotment should be issued to the registered holders of shares in the old company accompanied by letters of renunciation acted on in favour of purchasers from them to the extent of more than 10 per cent. of the shares forming the purchase consideration (see *Oswald Tillotson v. Inland Revenue Commissioners* (1933, 1 K.B., 134). In the case just cited it was further held that registration of shares in the new company in the names of nominees as trustees for registered holders in the old company was not equivalent to the "issue of shares" to those registered holders. The Court of Appeal in the same case left the point open, but it is to be noted that in *Murex v. Inland Revenue Commissioners* (1933, 1 K.B., 173) the same point was, in effect, decided in the same way as in the *Tillotson* case, the Judge in the *Murex* case refusing to admit evidence as to the character in which nominees were registered as holders of shares. On the other hand, the shares of the new company need not necessarily be issued to the members of the old company in the proportions in which they hold the shares of the old company, and the claim for relief from duty will not fail by reason only of the fact that by arrangement between such members some receive more or less shares than the number to which they are entitled.

The income tax position in all schemes of reconstruction is again one of the greatest importance and should be given the most careful consideration by the company's accountant. Although to the outside world there will be no apparent change in the continuity of the business of the company or in its management or constitution, yet for income tax purposes the new company will be deemed to have commenced a new business, and the observations I made concerning income tax on the conversion of a business into a company will apply equally to a scheme for reconstruction.

AMALGAMATION OF COMPANIES.

I propose to conclude with a few observations on the amalgamation of companies.

The particular circumstances of each case will generally

determine the mode of procedure to be adopted, but I will take a normal case of the proposed amalgamation of two companies. The amalgamation might be effected by adopting one of the following methods :—

1. Either of the existing companies might acquire the undertaking of the other company.
2. A new company might be formed to acquire the undertakings of the two existing companies.
3. Either of the existing companies might acquire the whole of the issued shares of the other company.
4. A new company might be formed to acquire the whole of the issued shares of the two existing companies.

In examples 1 and 2, the undertakings of the respective companies become vested in the purchasing company, whilst the shares allotted or cash paid by the purchasing company will be held by the vendor company or companies unless such company or companies is or are placed in liquidation for the purpose of enabling the said shares or cash to be distributed among the members in accordance with their rights. If the winding-up of the vendor company or companies is proposed and the consideration is to be satisfied by an allotment of fully paid shares of the purchasing company, any dissentient member will have the rights conferred by sect. 234 of the Companies Act, 1929, and it will not be advisable to proceed with the scheme until it has been ascertained that the same will meet with the approval of the members generally. When there is not to be a winding-up, it is necessary to ascertain whether a power to sell its undertaking is conferred by the Memorandum of Association of each of the vendor companies.

In examples 3 and 4, the undertakings remain in the ownership of the respective companies as separate entities and there is merely a change in the membership thereof, such change being effected by means of transfers from the individual members to the purchasing company, the transaction thus involving negotiations with the individual members, which sometimes give rise to difficulties by reason of one or more members declining to sell or demanding an exorbitant price. These difficulties have to some extent been removed by sect. 155 of the Companies Act, 1929, which, as you may recall, enables the purchasing company to acquire the shares of any dissentient (provided that 90 per cent. of the shares in question have been acquired) on the terms accepted by the approving shareholders unless the Court on the application of the dissentient varies such terms. In the case of such an application the onus of proof is on the dissenting shareholder to show good reason why his shares should not be acquired (*In re Hoare & Co.* (1934), 150 L.T., 374).

When considering alternative modes of procedure, the directors of the purchasing company usually wish to know the position of the other company with regard to income tax as in some cases the last-mentioned company is carrying forward losses in respect of which relief from tax may be obtained in future if the transaction is carried through by means of an acquisition of shares without disturbing the continuity of the business, whereas such relief would not be obtained if there were a change in the ownership of the business.

In the ordinary course, the consideration would in each case be wholly satisfied by the allotment of fully paid shares of the purchasing company to the existing company or companies or the members thereof, a claim for relief from capital duty and transfer duty being made under sect. 55 of the Finance Act, 1927, as amended by the Acts of 1928 and 1930. Such a claim would not, however, arise if the consideration payable

by the purchasing company were satisfied to the extent of less than 90 per cent. by the issue of shares. Where the consideration is to be satisfied by the allotment of shares of the purchasing company, the trustees of the will of a deceased shareholder will not, in the absence of special provisions in the will, be entitled to concur in the scheme unless the scheme falls within examples 1 or 2. In this connection I would remind you of the decision in the case of *Mr. N. Walker's Settlement; Royal Exchange Assurance Corporation v. Walker*—decided by the Court of Appeal in 1935—which shows that only schemes of amalgamation under examples 1 or 2 are amalgamations within the meaning of the term in sect. 10 (3) (c) of the Trustee Act, 1925—although, of course, schemes under examples 3 or 4 may be amalgamations falling within sect. 55 of the Finance Act, 1927, or sect. 155 of the Companies Act, 1929.

As a matter of interest it may be noted that the scheme of amalgamation which was discussed in the *Walker* case was duly completed and has since been supplemented by a further scheme which was confirmed by Mr. Justice Simonds on December 6th last in connection with the amalgamation of six London electricity supply companies.

Reverting to the question of relief from stamp duty on transfers of shares conferred by sect. 55 of the Act of 1927, the recent case of *Lever Brothers, Limited, v. Inland Revenue Commissioners* (mentioned in *The Accountant*, December 4th, 1937) is of interest. The point to be decided was whether the said relief was applicable where Lever Brothers, having acquired for cash over 40 per cent. of the issued capital in an existing company in 1919, proceeded in 1936 to increase their holding in that company to not less than 90 per cent. of the issued share capital of that company, the consideration for the acquisition of the further shares being wholly satisfied by the issue of shares of Lever Brothers. Mr. Justice Lawrence, in delivering judgment, said that in his opinion the Commissioners were right in holding that Lever Brothers had not increased their capital with a view to the acquisition of not less than 90 per cent. of the shares having been paid for in cash. The natural sense of the words of sect. 55, said Mr. Justice Lawrence, was that the increase of capital must be made with a view to the acquisition of not less than 90 per cent. of the share capital in the sense that no less than 90 per cent. must be acquired by the increase of capital. A company, for example, did not, in his opinion, increase its capital with a view to the acquisition of 90 per cent. of share capital when it acquired 89 per cent. without any increase of its capital and 1 per cent. by such increase.

Whilst discussing stamp duties, perhaps I might remind you of the provisions of sect. 42 of the Finance Act, 1930. These provisions are intended to afford relief from conveyance duty on transactions between associated companies. In practice, however, advantage of such provisions may be taken in certain cases which do not fall within sect. 55 of the Act of 1927, but which involve the transfer of some of the assets of a company to a new company—the transfer being completed at the time when the transferor company is the beneficial owner of not less than 90 per cent. of the share capital (which might be £100) of the new company then issued.

In conclusion, I desire to express to the President of your Society my thanks for the privilege and opportunity of addressing you, and to you personally my appreciation of the courteous hearing which you have given me. I trust that each one of you in listening to what I have had to say may have discovered something of value, however slight, to help you in your work.

Incorporated Accountants' Students' Society of London.

ANNUAL MEETING.

The annual general meeting of the Incorporated Accountants' Students' Society of London and District was held at Incorporated Accountants' Hall on February 22nd. The chair was occupied by the President, Mr. G. Roby Pridie, F.S.A.A., who, in moving the adoption of the Committee's Report and Accounts, said that the year's work constituted a record of sound progress, while the most marked feature was the great awakening of personal interest amongst the younger members.

Immediately following last year's annual meeting certain proposals, more or less in the form of a requisition, were put forward, some of which were quite impracticable but others were of such a nature as to commend themselves to favourable consideration by the Executive, with the consequence that two of the signatories to the proposals, Mr. J. E. Sparrow and Mr. J. H. Messenger, after an interview with the President and members of the Committee, were co-opted to serve on the Committee.

In the autumn of last year a Sub-Committee was appointed to revise the Rules of the Society, and its recommendations having been approved by the main Committee in December of last year a new set of rules was duly submitted to and adopted by a Special General Meeting of members, subject only to certain final amendments which were subsequently approved.

Last year mention was made of the great concern the Committee felt at the marked tendency of students, on qualifying, to withdraw from membership. It is therefore pleasing this year to find that there has been a net increase of ten non-practising honorary members.

Respecting the accounts, Mr. Pridie said there were no extraneous items of expenditure, but the normal disbursements showed increases in certain directions, all of which were indicative of the growing activities of the Society, viz., (1) The gratuitous circulation of the "Transactions" to every member of the Society at an additional cost of £52, (2) Extra prizes to students gaining examination honours, £17, and (3) Additional honorarium to the Secretary, £25.

The motion was seconded by the Vice-President, Mr. H. E. Colesworthy, and carried unanimously.

OFFICERS AND COMMITTEE.

The following Officers and Committee were appointed for the ensuing year, viz.:—President, Mr. H. E. Colesworthy, F.S.A.A., F.C.A.; Vice-President, Mr. S. T. Morris, F.S.A.A.; Members of the Committee, Mr. W. Strachan, F.S.A.A., Mr. G. Roby Pridie, F.S.A.A., Mr. A. A. Garrett, M.B.E., M.A., B.Sc., Mr. F. R. Witty, A.S.A.A., Mr. E. J. Gamble, A.S.A.A., Mr. J. A. Allen, A.S.A.A., Mr. B. W. Holman, Mr. J. E. Sparrow, Mr. J. R. Messenger, Mr. R. G. Coleman, B.A., B. Com.; Honorary Treasurer, Mr. Henry J. Burgess, F.S.A.A.; Secretary, Mr. James C. Fay, A.C.I.S.; Honorary Auditors, Mr. W. G. Payne, F.S.A.A., F.C.A., Mr. L. G. Mansfield, F.S.A.A.

Report.

The Committee have pleasure in presenting their forty-seventh annual report and accounts for the year ended December 31st, 1937.

MEMBERSHIP.

During the past year 221 new members were elected, and at December 31st, 1937, the register contained the names of 1,869 members classified as under:—

Ordinary members	1,345
Honorary members :	
In practice	145
Not in practice	379
	<hr/>
	1,869

REVIEW OF THE YEAR'S WORK.

During the spring and autumn sessions ten meetings were held, at all of which the attendances were excellent, particularly at the closing meeting of the spring session when a *pro forma* meeting of creditors in voluntary winding-up was arranged under the direction of Mr. D. Mahony and Mr. R. J. Tothill. The services of these gentlemen were greatly appreciated by an enthusiastic audience.

The Committee desire again to express their appreciation and thanks to those members of the legal profession and members of the Parent Society, whose names appear below, for their personal contributions to a most successful year.

LECTURES AND DISCUSSIONS.

The lectures and discussions held during the spring and autumn sessions were as follows :—

Spring, 1937—

"Methods of Fraud and their Detection," by Mr. S. M. Caldwell, A.C.A.

"Stock Exchange and Other Markets," by Mr. W. J. Back, Incorporated Accountant.

"The Beginner's Approach to the Study of Income Tax and Death Duties," by Mr. Terence Donovan, Barrister-at-Law.

"Capital Reconstruction of Limited Companies," by Mr. J. A. Allen, Incorporated Accountant.

Pro Forma Meeting of Creditors in Voluntary Winding-up, arranged by Mr. D. Mahony, Incorporated Accountant, and Mr. R. J. Tothill, Incorporated Accountant.

Autumn, 1937—

"The Training of the Practising Accountant," by Mr. Cedric N. Walter, Incorporated Accountant.

"Errors Encountered in Auditing," by Mr. G. F. D. Rice, Incorporated Accountant.

"Practical Points on Farm Accounts," by Mr. A. C. Deffee.

"Distribution in Relation to Monetary Policy," by Mr. C. McAULEY, B.Com., Incorporated Accountant.

"The Finance Act, 1937," by Mr. W. J. Back, Incorporated Accountant.

"TRANSACTIONS."

A permanent record of the Society's work, including full reports of lectures delivered during the autumn session of 1936 and the spring session of 1937, is available in the 41st volume of "Lectures and Transactions of the Society." Copies have been posted to all members.

There is also published in the *Incorporated Accountants' Journal*—the official organ of the Society of Incorporated Accountants and Auditors—a number of the lectures delivered to this Society and to District Societies throughout the country, together with much topical information touching matters of professional importance.

EXAMINATIONS OF THE SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS.

The following members of the Society obtained Honours at the Parent Society's examinations during the year 1937 :—

MAY.—*Final*: Mr. John William Margetts, First Certificate of Merit; Mr. Douglas Rowing Fendick, Second Certificate of Merit; Mr. Fred Cusk, Third Certificate

of Merit; Mr. William Frederick Masters, Fourth Certificate of Merit.

MAY.—*Intermediate*: Mr. Gordon Alec James Morris, Second Place Certificate; Mr. William John Parker, Third Place Certificate; Mr. William Bulcock Barrett, Sixth Place Certificate; Mr. Francis Albert Watt, Seventh Place Certificate.

NOVEMBER.—*Final*: Mr. Leonard John Dennis Jones, First Certificate of Merit; Mr. Alec Herbert Barber, Fourth Certificate of Merit.

NOVEMBER.—*Intermediate*: Mr. Percy Leonard Stapleton, First Place Certificate; Mr. William Alfred Wixon, Fourth Place Certificate; Mr. Thomas Geoffrey Forester, Fifth Place Certificate.

PRIZE AWARDS.

In connection with the foregoing examinations, the following student members, who headed the list of honours granted by the Parent Society, were also awarded the Students' Society prizes, viz.:—

Final Examinations, May, 1937.—First Prize, Mr. J. W. Margetts; Second Prize, Mr. D. R. Fendick. November, 1937.—First Prize, Mr. L. J. D. Jones; Second Prize, Mr. A. H. Barber.

Intermediate Examinations, May, 1937.—First Prize, Mr. G. A. J. Morris; Second Prize, Mr. W. J. Parker. November, 1937.—First Prize, Mr. P. L. Stapleton; Second Prize, Mr. W. A. Wixon.

RULES.

A special general meeting of members was convened by your Committee on December 7th, 1937, at which a resolution was passed adopting as from January 1st, 1938, the revised set of rules, of which a copy had been previously forwarded to each member.

At that meeting various suggestions were made for the verbal clarification of certain of the rules, and in order to give effect to these recommendations a further special general meeting of members will be held immediately prior to the annual general meeting, and under Rules 25 and 29 a formal notice convening the special meeting for February 22nd, 1938, accompanies this report.

OFFICERS AND COMMITTEE.

Under Rule 13, Mr. S. T. Morris, F.S.A.A., Mr. C. E. Wakeling, F.S.A.A., Mr. W. D. Menzies, F.S.A.A., Mr. J. E. Sparrow and Mr. J. R. Messenger retire from the Committee. Mr. Wakeling and Mr. Menzies do not offer themselves for re-election. The Committee recommend the re-election of Mr. Morris, Mr. Sparrow and Mr. Messenger. In accordance with Rule 18 a nomination for election to the Committee has been received in favour of Mr. R. G. Coleman, B.A. In the absence of other nominations a resolution will be proposed for the election to the Committee of Mr. Morris, Mr. Sparrow, Mr. Messenger and Mr. Coleman.

Mr. Henry J. Burgess, the Hon. Treasurer, retires from office and, being eligible, offers himself for re-election.

Mr. W. G. Payne, the Hon. Auditor, retires from office and offers himself for re-election. Under Rule 23 the appointment of Mr. L. G. Mansfield as Joint Auditor will be proposed.

Syllabus of Lectures, &c., Spring Session, 1938.

Feb. 22nd. Annual General Meeting, followed by a Students' Evening: Three Short Papers. "The Education of an Articled Clerk," by Mr. R. G. Coleman, B.A., B. Com. "The Detection of Cash Frauds," by Mr. Bruce Holman. "The Presentation of Schedules on Completion of Audit," by Mr. W. S. Jones. *Chairman*: Mr. H. E. Colesworthy F.C.A., F.S.A.A., President.

- Mar. 3rd. "Partnership Accounts and Taxation," by Mr. W. J. Back, A.S.A.A. *Chairman*: Mr. William Strachan, F.S.A.A.
- Mar. 8th. Debate: "That the Activities of Speculators are to be Deplored." Affirmative: Mr. J. E. Sparrow, Mr. P. L. Stapleton. Negative: Mr. L. G. Mansfield, F.S.A.A., Mr. A. V. Hussey, A.S.A.A. *Chairman*: Mr. G. Roby Pridie, F.S.A.A.
- Mar. 15th. A Practice Arbitration arranged by Mr. C. B. Hewitt, F.S.A.A., designed to demonstrate the procedure followed at arbitrations generally.
- Mar. 22nd. Students' Discussion: "Hints for the Examination Room," opened by Mr. H. A. R. J. Wilson, F.S.A.A., F.C.A. *Chairman*: Mr. A. A. Garrett, M.B.E., M.A., Secretary of the Society of Incorporated Accountants.
- Mar. 29th. The Hearing of a Case Stated. *Judge*: Mr. Roland Burrows, K.C. *Counsel*: Mr. Terence Donovan, Mr. G. G. Honeyman.

The chair will be taken at the meetings at 6.15 o'clock p.m. precisely.

Incorporated Accountants' District Society of Leicester.

DINNER AT NORTHAMPTON.

The dinner of the Incorporated Accountants' District Society of Leicester was held in the Town Hall, Northampton. Mr. W. H. Fox, of Northampton, the new President, occupied the chair. The chief guests were the Lord Mayor of Leicester (Councillor Frank Acton, J.P.), the Mayor of Northampton (Councillor W. H. Percival, J.P.), Mr. Walter Holman (President of the Society of Incorporated Accountants and Auditors), Mr. C. T. A. Sadd, J.P. (General Manager, Midland Bank), Mr. Bernard Campion, K.C., Mr. C. W. Phipps (President, Northampton Chamber of Commerce), Mr. John Blakeman (Principal, Northampton College of Technology), Mr. L. W. Kershaw (Principal, Leicester College of Technology and Commerce), Councillor C. E. Worthington (President, Leicester and County Chamber of Commerce), Mr. N. W. Payne (President, Association of Leicester Clearing Bankers), Mr. A. P. Carryer (President, Leicester Society of Chartered Accountants), Mr. A. W. Watson (President, Incorporated Accountants' Birmingham and District Society), Mr. Leo T. Little (Deputy Secretary, Society of Incorporated Accountants and Auditors), Major H. St. John Browne (Honorary Secretary, Northamptonshire Law Society), Mr. W. R. Kew (Town Clerk, Northampton), Mr. W. Cowper Barrons (Managing Editor, *Northampton Chronicle and Echo*), Mr. Bernard Holloway (Editor, *Northampton Independent*), Mr. H. Talbot Butler (Northampton Branch of the National Provincial Bank), Mr. F. E. Taylor (Inspector of Taxes), Mr. H. W. Croft (Inspector of Taxes), Mr. J. H. C. Newton (President, Northampton Town Boot Manufacturers' Association), Dr. A. D. Smith (Inspector of Taxes), Mr. O. J. B. George (Northampton Branch, Midland Bank), Mr. T. Bengough (Official Receiver, Northampton), Major H. Hanford (Northampton Branch, Lloyds Bank), Mr. E. C. Cross (Northampton Branch, Westminster Bank), Mr. H. C. Perrin (Northampton Secretary for Education), Mr. R. S. Cockram (President, Insurance Institute of Northampton), Mr. F. E.

Wigmore (Northampton Branch of Barclays Bank), Mr. E. Bordoli (Secretary, Northampton Town Boot Manufacturers' Association), Mr. Percy Wardle (Northampton Branch of Martins Bank), Mr. H. E. Wakefield (Inspector of Taxes), and Mr. J. G. Tate. There were about 150 other guests present, including a large party from Leicester.

The loyal toast having been honoured, Mr. C. T. A. Sadd proposed the "Society of Incorporated Accountants and Auditors." He said that when he was asked to propose the toast he accepted gladly because it was a great honour and privilege to do so. A gentleman whose name he did not know had sent him some particulars about the Society. It had given him the greatest pleasure to read of its many objects. The Society was formed in 1885 and had made marvellous progress. The first object was to promote the interests of its members. He was interested to see that in pre-suffrage days they had a vision of what would happen and made provision for the entry of women as well as men. In fact he was surprised to find no ladies there that evening. Another object was to promote social intercourse among members and a delightful dinner such as they were enjoying showed that they were carrying out that object. It was often said that Incorporated Accountants were more dictatorial and dogmatic than any dictator of history. That might be so and rightly so because Incorporated Accountants could dictate the pace at which money was spent for trade. It was often wrongly said that bankers created credit and to a certain extent dictated what money would be given to trade. They need not believe it. It was the Incorporated Accountants who could say whether the purse strings could be opened, and how much could be spent. He was often reminded of the characteristic of English people penned by G. K. Chesterton. He wrote, "One of the greatest characteristics that have made the English people what they are is their fair-minded inability to appreciate that any viewpoint but their own can possibly be of the slightest value." In 1891, in order to test the mental gymnastics of future Incorporated Accountants the following questions were set:—

If eight men can row from Putney to Mortlake in 20 minutes, in what space of time can 80 men do it?

If 100 men can build a house in six months, how many men will be required to build it in six weeks?

This was putting far too big a strain on mental gymnastics when they realised that two and two made four. Only bankers, however, realised that and then sometimes they made five. (Laughter.) The question of precision was a very important one, but it could be dangerous to be too precise. They might know the story of the tourists who were out in the Swiss Alps. One of them pointed to a very large boulder. "Has it been here long?" asked one of them. To this the guide replied that it had been there 12,000,004 years. "How can you be so precise?" asked the tourist. "Well, replied the guide, "I was told its age by a geologist who came here four years ago." (Laughter.) "That to me," continued Mr. Sadd, "is rather like the mentality of . . . some bankers. (Loud laughter.) He did not think they always realised, individually, the importance of their profession; its importance to the country as a whole. Governments, municipalities, traders, or commercial men of any account—not one of them could do without accountants and as their responsibilities had increased so had their efficiency. He believed the Revenue Authorities were always waiting with bated breath to see how accountants interpreted the new Finance Act each year. He knew a Harley Street doctor—a name to conjure with—who to many patients

had said, "You don't want a doctor; what you want is a good Incorporated Accountant." They did not want to be too precise. They had to use figures, collate and collect facts, but if he might say so, the most important part of their profession was to make the dry bones live, to vitalise the statistics and facts which were in front of them. He could only say as a banker that they could not do without them. Their advice, their determination to fight for their client up to the last moment, and their final graceful acceptance of the position was very dear to them and they were grateful to the accountants for it. Their profession called more than ever for men of high character, ability and vision—they could not forget that last quality. (Applause.)

MR. WALTER HOLMAN (President of the Society of Incorporated Accountants), responding to the toast, said he would like to think that the applause which greeted him was a tribute to the Society, but he was bound to say that it seemed much more a tribute to Mr. Sadd for the delightful way in which he had proposed the toast. His speech had been a very great encouragement to him personally. He had heard for the first time that it was possible for a bank manager to wait upon an accountant. His experience had been entirely to the contrary. He would like to say to Mr. Sadd that if they were guilty of undue precision, it was a fault they shared with bankers. Mr. Sadd might have heard of the manager of a country bank which had been absorbed into one of the larger banks. One morning headquarters received from this bank manager a message to the following effect: "I very much regret to inform you that Mr. Dalrymple, an old and valued customer, has passed away. In accordance with our usual practice we have sent a wreath to show our respect and the cost of this is being deducted from the interest due on his deposit account." (Loud Laughter.) He doubted whether even they could rise to such heights of precision. He responded to the toast of the Society with particular pleasure. When he had visited other District Societies he had followed in the footsteps of his predecessors and he had said things that had been said in those places many times before. On this occasion he was a pioneer—for once he was not building on another man's foundation, for this was the first occasion the Society had held a dinner in Northampton. The Society of Incorporated Accountants had been in existence for 53 years and they might well ask how it was that so important a town as Northampton had not been visited before. The reason, he thought, could be found in the fact that until a few years ago their members had little contact with one another except in the large centres where District Societies had been in existence for a great number of years. In the late twenties during the Presidency of Mr. (now Sir) Thomas Keens, a reorganisation of the Society provided that all members should be definitely linked to a District Society, and in consequence several new District Societies were formed. Among them was the Leicester and District Society, which included their members in Northampton. This was the first time a Northampton accountant had been President of the Leicester Society and the first Northampton dinner was being celebrated that night. He congratulated Mr. Fox and he congratulated Northampton on having "arrived," and hoped that the precedent set that evening would, in due time, be repeated. There were Branches of the Society in Scotland, Ireland, Canada, Australia and South Africa, and the District Societies which numbered 23 included two in India. During his Presidency, Mr. Holman said, he had represented the Society in Ireland, Canada and the United States of America. He would raise no great objection if the interests of the Society made it desirable that he

should represent them even farther afield. Mr. Sadd had referred to the objects of the Society, and he would not repeat them, but in order to achieve them they insisted on a high standard of education and proficiency before admission to membership, and a high standard of conduct after admission. Admission to the Society was normally by articles of five years during which time examinations must be passed, thus ensuring that theoretical and practical training should go hand in hand. But the Society's constitution was democratic in that candidates who had long experience in the offices of professional accountants could take their examinations and obtain membership even though they had not been articulated. He would not weary them with details of the examinations or with particulars of the way in which they maintained the standard of their membership. It would be sufficient for him to remind them that over 30 years ago it was held in the High Court that the term "Incorporated Accountant" belonged exclusively to members of their Society and conferred on them the privilege of being looked upon by persons having to deal with accountants as holding a definite status indicating reliability and integrity. That historic judgment had since been included in their motto "*Fides atque integritas*." He had made some reference to the Society and its members. In passing let him say that his visits to District Societies had impressed him with the high respect their members held in the public and industrial life of their districts. He would pay tribute also to the Officers and Committees for what they did for the various Societies and their members. He brought from headquarters a tribute to the Committee and Officers of the Leicester District Society for the efficient and careful way in which the interests of the Society were protected and furthered. Then he wanted to say a word about the work which they did. He wanted to speak to those engaged in industry and commerce and to tell them what the Society's members themselves could not tell—because they were not allowed to advertise themselves—that they existed for the benefit of industry and commerce and the protection of the investing public. It would be superfluous to attempt to recount the various services which Incorporated Accountants rendered, but not the least of them was that of telling the truth as they saw it, and he wished to indulge in that doubtful pleasure for a moment or two. Industry was often described as an alliance between capital and labour and they were frequently referred to as if they were antagonistic. In his view a third element, without which the other two could not properly function, was often overlooked although it was vastly important—he referred to the element of management. It was curious that while men would "scorn delights and live laborious days" in order to acquire a professional qualification, the same effort was not considered normally necessary for the executive positions of control and management in industry. He ventured the opinion that failures in business might be attributed to inefficient management more than to any other single cause, and the burden of the losses consequent upon these failures fell not only upon capital and labour and the creditors immediately concerned but also on the whole body of producers and consumers. He was not so foolish to suggest that accounting and management were interchangeable terms, that an efficient accounting system was necessarily a sign of efficient management, but he did say that the absence of proper systems of recording and accounting was a definite sign of inefficient management, and in these days, when businesses were increasing in size and complexity and when competition was growing keener, no business which wished to survive could afford to neglect the help which the accountancy

profession could give it. He did not suggest for a moment that all business failures could be attributed to inefficient management—in many cases they arose from circumstances which made success impossible from the start. He believed that in many cases shops, for example, were being opened throughout the country whose situation was such that it was practically impossible to contemplate a turnover sufficient to cover overhead charges, leaving no margin for management, whatever its quality might be. In that direction he suggested there was room for control by local authorities in the interests of the community as a whole, for the effects of progress and success could no more be limited than could the effects of depression and failure. They were all dependent upon one another. It was sometimes said that accountants flourished whether industry was successful or unsuccessful. It might be true in certain cases, but he believed that their success was bound up with the success of industry as a whole, and if he might say so bankers were with them in that respect also. It was, therefore, with a sense of enlightened self-interest that Mr. Holman expressed the conviction that Mr. Sadd and those whom he represented would join with accountants in wishing prosperity to industry. (Applause.)

Mr. BERNARD CAMPION, K.C., proposing the toast of "The Corporation of Northampton," said he coupled with the toast the name of the Mayor, Councillor Percival. Like old soldiers, Corporations never died. He was delighted to propose the toast as a Northampton man born and bred, coupling with it the name of his dear friend, Councillor Percival. Northampton, said Mr. Campion, was not a town which boasted very much about itself. It had a great history, but that was not the best thing one could say about Northampton. He had known it now for well over 50 years of adult life. It always had, and he believed it showed promise of always having, a live Corporation. It continued to maintain the high traditions of the past. (Cheers.)

The MAYOR OF NORTHAMPTON congratulated their new President. He had known him for a great many years and it was a source of satisfaction to him and he was sure to everyone to see him in that place of honour. At a certain time of the year, in common with all other towns, they had party labels, but when that week was passed all parties on the Town Council worked harmoniously in the best interests of the community. With regard to the present they were in a very satisfactory position. They were getting on with their slum clearance and building housing estates and flats. As to education he thought he could say that they had a very high place in the educational world. They had got through their re-organisation under the Hadow scheme very satisfactorily, with hardly a dissident. They had their Technical College and they hoped that in years to come they would obtain university status. They had their new baths and the public had been given good value for the money that was spent. He would remind them, too, that in Northampton they did not rely on boots alone. They had other industries—brewing, model making, blouse manufacturing and various other activities.

The PRESIDENT, Mr. W. H. Fox, proposed the toast of "Our Guests." He gave their guests a very hearty welcome to their first dinner in Northampton. He was delighted to welcome the President of the Society, Mr. Holman, who had told them that in the 53 years of the Society's life this was the first visit to Northampton of a President, and he would like to say that they in the provinces appreciated the re-organisation which had effected a much closer relationship between the provincial members and those at headquarters. They were

also delighted to welcome Councillor W. H. Percival, Mayor of Northampton, and the Lord Mayor of Leicester, and they were very glad to have Mr. Sadd with them. To Mr. Bernard Campion they said, "Welcome home." Northampton always had a very high regard for one of its sons who had distinguished himself in wider fields. A number of their guests had come long distances to be with them and they were very grateful to them for accepting their hospitality. Neither Major-General Sir John Brown, nor Mr. W. C. C. Cooke, who were to have responded, were able to be present, but they were fortunate in having Mr. John Blakeman to step into the breach. They in Northampton knew him very well and realised how much Leicester lost in letting him leave and come to them 26 years ago.

Mr. JOHN BLAKEMAN, responding in witty vein, referred to the story, told by Mr. Lloyd George, who said that during the War Mr. Winston Churchill went to fight in the trenches for a time. When he came back he said that fighting in the trenches had cleared his mind. Mr. Arthur Balfour immediately replied that he was glad that Winston's mind was cleared, but was it worth a European war to do it? (Laughter.) That was somewhat how he felt. Sir John Brown had been called away to some important military conference while he took his place. But he hoped it was not necessary to start another European war to give him this pleasure.

Mr. L. BENBOW proposed the toast of "The President," and referred to the position in Northampton and district before the re-organisation some eight or nine years ago when members in Northamptonshire and Rutland were merged into the Leicester Society, and at that time their new President was elected to represent Northampton on the Executive Committee. He expressed the hope that Mr. Fox might be endowed with good health for many years to carry on his good work. The toast was drunk with musical honours.

In reply, Mr. Fox expressed his gratitude to Mr. Benbow and said how much he appreciated the kindness shown by all of them in their attendance that night. He wished to express his appreciation to the 70 or 80 members from Leicester. He did think that it was very largely due to them that the dinner had been such a success, and he wanted to say thank you for the support he had received from the Officers and the Committee of the District Society, in particular Mr. Manning. They would agree with him that the dinner was a tribute to the organisation of Mr. Manning in particular.

AN INCOME TAX ANOMALY.

A correspondent of *The Times* calls attention to what he describes as a very unfair state of things in regard to the children of divorced persons. He says: A case came to my notice where a husband deserted his wife and children and was divorced. The children are maintained by the grandfather, the husband contributing nothing. The extraordinary thing is, however, that the husband (who pays nothing towards his children's support) can, nevertheless, under Finance Act, 1920, section 24, claim the children's allowances in full; but the grandfather (who wholly maintains them) can claim no allowance at all unless their father relinquishes his claim, which he refuses to do.

Glasgow Students' Society.

ANNUAL MEETING.

The annual meeting of the Incorporated Accountants' Students' Society of Glasgow was held on Wednesday, 9th ult. There was a large attendance of members. Mr. W. Davidson Hall, F.S.A.A., occupied the chair. An apology for absence was intimated from Mr. Robt. T. Dunlop (President of the Branch).

The report of the Committee on the work of the year to December 31st, 1937, read by the Hon. Secretary, Mr. J. Hawthorne Paterson, F.S.A.A., stated that during the year the following lectures had been given:—

January 20th.—“The Law of Successions in Scotland,” by Mr. Donald A. S. McLeish, M.A., LL.B.

February 17th.—“The Law of Trusts and Exceutry,” by Mr. Donald A. S. McLeish, M.A., LL.B.

February 24th.—“Exceutry Accounts with some Observations on Apportionment,” by Mr. F. D. Greenhill, C.A.

March 10th.—“Trust Accounts,” by Mr. F. D. Greenhill, C.A.

March 24th.—“Auditing,” by Mr. F. D. Greenhill, C.A.

April 14th.—“Auditing,” by Mr. F. D. Greenhill, C.A.

October 22nd.—“Statistics as an Examination Subject,” by Mr. F. W. Dimmer, M.A., B.Sc.(Lond.).

November 24th.—“National Defence Contribution,” by Mr. Robert Burnett, C.A.

December 22nd.—“Contracts, Agency, Sale of Goods,” by Mr. Allan Aitken, M.A., LL.B.

All these meetings were very well attended, and Mr. Burnett's lecture was open to members of the Scottish Branch. For the current session several lectures on accountancy and legal subjects had been arranged.

At the close of the last session students were invited to send in papers on “Apportionment” on which a lecture had been given by Mr. Greenhill. A number of papers were sent in, and the two best papers were by Mr. John A. Stewart and Mr. George A. Macdonald, who, at the meeting on April 14th, were presented with book prizes from the W. D. Hall Prize Fund.

In the examinations held during the year seven members of the Glasgow Students' Society had been successful. One of these—a Preliminary candidate—was awarded a place in the Honours list, and would receive a prize from the W. D. Hall Prize Fund.

The Hon. Secretary also submitted the financial statement showing a satisfactory balance at the credit of the Society. The thanks of the Society were due to the Scottish Council for grant of £25.

In moving the adoption of the report and accounts, the Chairman said that good attendances showed that the lectures were thoroughly appreciated by the members, several of whom came from a considerable distance outside Glasgow. The Committee hoped that this interest would continue and would be reflected in the examination results. Mr. John Aitchison, A.S.A.A., seconded, and the report and accounts were adopted.

The following were appointed office-bearers and Committee for the ensuing year:—Hon. President: Mr. Robt. T. Dunlop, F.S.A.A. Hon. Vice-Presidents: Mr. J. Stewart Seggie, F.S.A.A., and Mr. James Paterson, F.S.A.A. President: Mr. W. Davidson Hall, F.S.A.A. Vice-President: Mr. Edwin H. Harris, A.S.A.A. Committee: Mr. Thomas Robertson, A.S.A.A., Mr. John Aitchison, A.S.A.A., Mr. W. G. Booth, Mr. Wm. Warnock, A.S.A.A., Mr. J. Hawthorne Paterson, F.S.A.A., Mr. J. M. Wainwright, Mr. Hector McKechnie, Mr. James A. Mowat, Mr. George A. Macdonald, Mr. John A. Stewart, with Mr. J. Hawthorne Paterson as Hon. Secretary and Treasurer.

In acknowledging a vote of thanks, the Chairman referred to the energetic work of the Hon. Secretary during the year in connection with the students' meetings.

Scottish Notes.

[FROM OUR CORRESPONDENT.]

Meeting of Scottish Council

A meeting of the Council of the Scottish Branch was held in Glasgow on Friday, January 28th. There were present the following members: Mr. R. T. Dunlop (Glasgow) (President of the Branch); Mr. W. Davidson Hall (Glasgow) and Mr. Walter MacGregor, J.P. (Edinburgh), Vice-Presidents; Mr. Robert Fraser; Mr. John A. Gough; Mr. Wm. Houston; Mr. Wm. Hill Jack; Mr. Robert Milne; Mr. P. G. S. Ritchie; Mr. E. Hall Wight (Glasgow); Mr. E. Mortimer Brodie (Port Glasgow); Mr. W. J. Wood (Perth); and Mr. James Paterson, Secretary.

Apologies for absence were intimated from Mr. Alexander Davidson (Peterhead), Mr. Festus Moffat, J.P. (Falkirk), Mr. W. L. Pattullo (Dundee), Mr. J. Stewart Seggie (Edinburgh), Mr. D. M. Muir (Dumfriesline), and Mr. J. T. Morrison, J.P. (Coatbridge).

Reports were submitted with reference to various matters affecting members of the Society and the profession in Scotland. Inquiries and applications for membership were submitted and dealt with. Reports were given as to the work of the Glasgow Students' Society and as to the visit of the President and Secretary to Aberdeen, and meetings with members and students in that area.

Speaking at a luncheon in Glasgow on the same day, Mr. R. T. Dunlop referred to the efforts made by the Council for the better training of students, and said that the matter was being carefully considered from all aspects. Mr. Donald A. S. McLeish, M.A., LL.B., and Mr. Frederick D. Greenhill, C.A., two of the lecturers during the past session, who were present, pointed out that lectures, however full, could not take the place of small tutorial classes where individual supervision of studies could be carried out.

Glasgow Students' Society Lecture.

A lecture on “Branch Accounts” and “Hire-Purchase Accounts” was given in the Scottish Constitutional Club, Glasgow, on Wednesday, February 9th, by Mr. F. D. Greenhill, C.A. Mr. W. Davidson Hall, F.S.A.A., presided and referred to the satisfactory attendance of members.

Mr. Greenhill first explained the various methods adopted by businesses which had a number of branch shops and the book-keeping usual in such businesses. He then dealt at some length with businesses doing hire-purchase trade, and how such transactions are usually treated in the books. The two subjects embraced by the lecture were very fully illustrated by examples handed round to the members. A number of questions were asked by the students and answered by the lecturer.

At the close, Mr. James Paterson (Secretary of the Scottish Branch), in moving that a cordial vote of thanks be given to the lecturer and to the Chairman for presiding, stated that the next lecture would be given on March 9th, and the subject would be “Partnership Accounts.”

Companies Act Charges.

In a recent case which came before the Sheriff Court, Glasgow, four men and one woman were charged with contraventions of the Companies Act, 1929. The charges included carrying on a business under a title which had the word “Limited,” although the company was not incorporated with limited liability; having given money from the company's funds to a man to purchase shares in the company; failed to keep and have ready for delivery certificates for 600 shares which had been distributed; and failed to notify changes in the directorship of the company. All the defendants were found guilty of one or more of these charges and fines totalling £44 were imposed by the Sheriff.